TENNESSEE

Comprehensive Annual Financial Report

June 30, 2003

Tennessee Comprehensive Annual Financial Report For the Year Ended June 30, 2003

PHIL BREDESEN, Governor

DEPARTMENT OF AUDIT
JOHN G. MORGAN, Comptroller of the Treasury
Division of State Audit
ARTHUR A. HAYES, JR., Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
M.D. GOETZ, JR., Commissioner
Division of Accounts
JAN I. SYLVIS, Chief of Accounts

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State of Tennessee

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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

INTRODUCTORY SECTION	Page
Letters of Transmittal	I
Organization Chart	VI
Certificate of Achievement for Excellence in Financial Reporting	VII
FINANCIAL SECTION	
Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Net Assets - Proprietary Funds	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28
Statement of Fiduciary Net Assets - Fiduciary Funds	32
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	33
Index for the Notes	34
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual–Major Governmental Funds	82
Reconciliation of Budget to GAAP - Note to RSI	84
Infrastructure Assets Reported Using the Modified Approach	85
Supplementary Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet - Nonmajor Governmental Funds - by Fund Type	88
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - by Fund Type	89
Nonmajor Special Revenue Funds:	
Combining Balance Sheet - Nonmajor Special Revenue Funds	92
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	96
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) – All Nonmajor Budgeted Special Revenue Funds	100

	Page
Permanent Funds:	
Combining Balance Sheet - Permanent Funds	116
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Permanent Funds	117
General Fund Supplementary Schedules:	
Comparative Schedules of Revenues by Source - General Fund	120
Comparative Schedules of Expenditures by Function and Department - General Fund	121
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets - Nonmajor Enterprise Funds	124
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	126
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	128
Internal Service Funds:	
Combining Statement of Net Assets - Internal Service Funds	132
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	134
Combining Statement of Cash Flows - Internal Service Funds	136
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds	140
Combining Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds	141
Combining Statement of Fiduciary Net Assets - Private-Purpose Trust Funds	142
Combining Statement of Changes in Fiduciary Net Assets - Private-Purpose Trust Funds	143
Combining Statement of Fiduciary Net Assets - Agency Funds	144
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	145
Component Units:	
Combining Statement of Net Assets - Component Units	148
Combining Statement of Activities - Component Units	152
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund Type Component Units	154
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund Type Component Units	156
Combining Statement of Cash Flows - Proprietary Fund Type Component Units	158

	Schedule	Page
Supplementary Schedules		
Debt Service Requirements to Maturity - General Obligation Bonds	1	163
Schedule of Outstanding Debt - All Fund Types	2	164
Schedule of General Obligation Commercial Paper Outstanding-By Purpose - All Fund Types	3	164
Schedule of Outstanding Debt - Component Units	4	165

	Table	Page
STATISTICAL AND ECONOMIC DATA		
Revenues by Source and Transfers In - All Governmental Fund Types	I	167
Expenditures by Function and Transfers Out - All Governmental Fund Types	II	167
Tax Revenues by Source - All Governmental Fund Types	III	168
Description of Tax Sources - All Governmental Fund Types		169
Ratio of Net General Long-Term Debt to Assessed Value and Net Debt Per Capita	IV	170
Computation of Legal Debt Service Margin	V	170
Ratio of Annual Debt Service for General Long-Term Debt to Total Expenditures - All Governmental Fund Types	VI	171
Schedule of Revenue Bond Coverage - Component Units - Tennessee Housing Development Agency and College and University Funds	VII	171
Schedule of Fees/Charges, Legislative Appropriations and Debt Service - Component Units - College and University Funds	VIII	172
Student Fees and Charges - For Institutions with Tennessee State School Bond Authority Debt - Component Units - College and University Funds	IX	176
Principal Amount of Debt Outstanding by Institution - Component Units - College and University Funds	X	176
Economic Characteristics		177
Index to Securities and Exchange Commission (SEC) Disclosures		183

INTRODUCTORY SECTION

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STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285

DAVE GOETZ
COMMISSIONER

December 15, 2003

The Honorable Phil Bredesen
Governor of the State of Tennessee

I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2003. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

In developing and modifying the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that evaluations occur within the above framework. I believe that the State's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The State of Tennessee's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 41,219 square miles and a population estimated to be 5.9 million. The State has three branches of government, the Executive, Legislative and Judicial. The Executive branch is headed by the Governor, who appoints commissioners to lead the various departments. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The financial reporting entity of the State includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable. The government provides a full range of services including education, health and social services, transportation, law, correction, safety, resources and regulation, and business and economic development.

In addition to internal controls, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Legislature. Activities of the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and the Dairy Promotion Board) and debt service fund are included in the annually appropriated budget. Budgetary control is maintained at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of available

balances are not released until budget revisions are approved or additional appropriations are made. Open encumbrances are reported as reservations of fund balance at June 30, 2003.

State statutes require an annual audit of all financial statements of the State. The accompanying financial statements have been examined by the Office of the Comptroller of the Treasury, Division of State Audit. Their examination was conducted in accordance with government auditing standards generally accepted in the United States of America, and their opinion appears elsewhere herein.

In conjunction with this examination, the Division of State Audit conducted an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The audit included tests of compliance with applicable federal laws and regulations, as well as, a study and evaluation of internal controls, including internal accounting and administrative controls used in administering federal financial assistance programs. The results of this single audit are published under separate cover by the Division of State Audit.

FACTORS AFFECTING FINANCIAL CONDITION

Local economy. The State's economic diversity has improved substantially over the last several years. Investments announced in new and expanding manufacturing businesses exceeded $1 billion every year since 1983, and exceeded $3 billion in the last five years. Announced manufacturing capital investments in 2002 were $3.72 billion. This growth has created 15,443 new jobs in this year alone, and has had a positive effect on employment and the State's economy. Additionally, investments in headquarters, distribution and selected services grew to $6.3 billion in 2002 and created 26,117 new jobs. For June 2003, the state unemployment rate of 5.6% was under the national average of 6.5%. The financial impact of these events is presented later in this letter. Based on current projections, the State's overall growth is expected to exceed the national average over the next several years. While having a positive impact, this growth also presents significant challenges for the State. If the present level of services is to be maintained and an ambitious program for major improvements in the educational system is to continue to be implemented, the State must continue to conservatively manage its financial resources.

The national recession appears to be ending. As evidence, the real (inflation-adjusted) gross domestic product increased only 2.9 percent during the calendar year 2002 and increased 3.2 percent during the first three quarters of 2003. The Federal Reserve has left interest rates at historic lows.

Tennessee's state government will take appropriate steps to ensure that the State is able to successfully manage its finances in the future.

Financial planning. The new Administration took office in January 2003 and produced a State budget that provided a 9 percent reduction in discretionary appropriations from general fund tax sources. Decisions used to develop the reductions followed extraordinary, open hearings during the budget development process and program-by-program review of the budget. Certain programs were held harmless due to their program nature. Some improvements were recommended in critical areas, such as, K-12 education, homeland security, TennCare, child welfare, prisons and employee health insurance. The legislature accepted the plan with few changes and as a result the State's credit rating remained stable at AA.

Only three times in the past 30 years has the appropriation curve flattened in state spending. By the close of the fiscal year 2003, the state had experienced slight revenue growth and the federal government had enacted its essential services act to provide tax relief. As we move into the fiscal year 2004, the State's rainy day fund is intact and revenues are being received above estimates.

The Administration is making significant progress with TennCare, the State's managed care health insurance program that replaced and expanded Medicaid in 1994. TennCare represents 23% of the state's budget and the program's rising costs have absorbed much of our state's revenue growth in recent years. Last year the state negotiated financial flexibility from the federal government reducing the State's TennCare obligations by $175 million. This year the state has implemented some serious cost cutting measures, the most significant of which is setting up a preferred drug list for TennCare through a single pharmacy benefit manager. This action will save approximately $150 million annually. The last step – the most critical – will be designing changes to the structure of the program to make it both financially viable and operationally sound long-term. Private-sector donations received by the state funded an outside consultant, McKinsey and Company. It will report to the state whether TennCare is viable in its current form, and if not, what changes are needed.

Pension and other post-employment benefits. The State sponsors a cost-sharing multiple employer defined benefit pension plan. Biennially, an independent actuary engaged by the State calculates the contribution rate that the State must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the State fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the State's conservative funding policy, as of July 1, 2001, the present value of the projected benefits earned by employees is funded at 99.6%.

The State also provides post-retirement health benefits for employees and retirees. For fiscal year ended June 30, 2003, there was an average of 6,159 retired employees receiving these benefits, which were financed on a pay-as-you-go-basis. Generally Accepted Accounting Principles (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the State's pension arrangement and post-employment benefits can be found in Notes 6E and G in the notes to the financial statements.

Cash Management. The State Treasurer has pursued an aggressive cash management and investment program. One aspect of this, which we believe is unique to Tennessee, is our direct access into the Federal Reserve wire system. Through the State Trust of Tennessee, wire services in the federal system are available via a terminal located in the State's investment offices. This provides the State flexibility in investing and concentrating cash balances, pension fund assets, and in redeeming warrants and checks issued against the Treasury. During fiscal year 2003, uncommitted State funds were invested in short-term collateralized deposits as follows (averaged): certificates of deposit (50%); repurchase agreements (4%); commercial paper (20%); U.S. Treasuries (25%); and money market accounts (1%). The composite average yield on these investments was 1.64%, down from 2.67% last year.

Risk Management. In 1989, the State initiated a loss prevention program. A loss prevention specialist has been employed to assist the State in analyzing the underlying cause of losses and in recommending measures to minimize the reoccurrence of similar losses. The State purchases commercial insurance for real property, flood, earthquake and builder's risk losses. The insurance policy deductibles vary from $1 million to $5 million by type of risk coverage. A fund balance designation of $3.271 million for incurred losses has been established in the General Fund.

OTHER INFORMATION

Securities and Exchange Commission Disclosures. The State Funding Board, the Tennessee State School Bond Authority, and the Tennessee Local Development Authority have each entered into Continuing Disclosure Undertakings with respect to certain debt issues. These Undertakings were made for the benefit of the holders of the debt pursuant to U.S. Securities and Exchange Commission Rule 15c2-12. The issuers have covenanted to provide certain annual financial information, including audited financial statements, as well as, certain additional financial and operating data. With the exceptions of information related to Tennessee Consolidated Retirement System and of certain local government financial information related to the Tennessee Local Development Authority provided to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) under separate cover, financial and operating data required pursuant to the Undertakings is located in this Comprehensive Annual Financial Report. The reader should use the index located at the end of this report to identify the specific page where the information is presented.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its Comprehensive Annual Financial Report for the year ended June 30, 2002. This is the twenty-fourth consecutive year that the State has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Tennessee Consolidated Retirement System has received this award for fifteen consecutive years for its Comprehensive Annual Financial Report.

Acknowledgments. The preparation of the comprehensive annual financial report was made possible by the dedication of the entire staff of the Division of Accounts in the Department of Finance and Administration. This report could not have been prepared without the cooperation of all state agencies and branches.

Respectfully submitted,

/s/ M. D. Goetz, Jr.

M. D. Goetz, Jr., Commissioner
Department of Finance and Administration

MDG/jmc

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

December 15, 2003

To the Members of the General Assembly
of the State of Tennessee
and
The Honorable Phil Bredesen, Governor
of the State of Tennessee

Ladies and Gentlemen:

In accordance with Section 4-3-304, Tennessee Code Annotated, transmitted herewith is the auditor's report on the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2003.

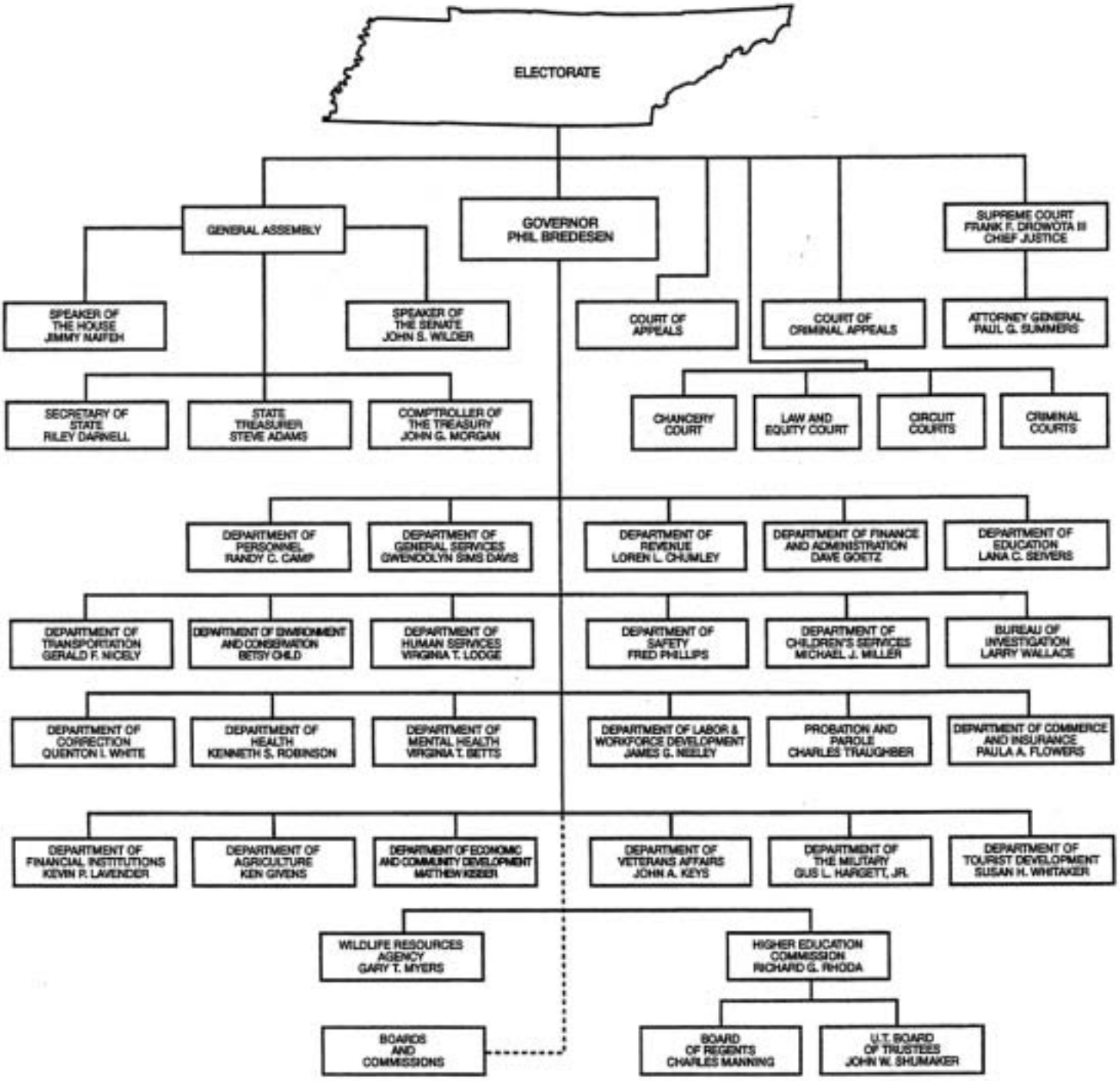
Respectfully,

/s/ John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/jmc

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2003



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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PHONE (615) 401-7897
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Independent Auditor's Report

December 15, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the Tennessee Consolidated Retirement System changed its method of reporting certain derivatives.

The management's discussion and analysis, infrastructure assets reported using the modified approach, and the schedule of revenues, expenditures and changes in fund balances – budget and actual are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical and economic data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical and economic data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards,* we will issue our report dated December 15, 2003, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts, and grants in the *Tennessee Single Audit Report.* That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

Sincerely,

/s/ Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/jmc

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2003. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages I-IV of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Assets - The assets of the State exceeded its liabilities at June 30, 2003, by $20.278 billion (reported as net assets). Of this amount, $262.9 million may be used to meet the State's obligations not funded by restricted net assets. However, $18.130 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

  Changes in Net Assets - The State's net assets increased by $814.7 million. Most of this increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets. Because of this decision, the State capitalized infrastructure expenditures of $675.1 million and did not record depreciation expense. Other capital assets are depreciated.

  Component units - Component units reported net assets of $3.27 billion, an increase of $181.4 million.

- **Fund Level:**

  At June 30, 2003, the State's governmental funds reported combined ending fund balances of $1.6 billion, an increase of $104 million (see discussion on page 10) in comparison to the prior year. Of the combined fund balance approximately $202.7 million is available for spending at management's discretion (unreserved fund balance), however $178 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

  The State's total debt increased by $.9 million during the fiscal year to total $1.26 billion. This increase is the difference between commercial paper draws for short-term financing and commercial paper and bond principal payments, i.e., commercial paper draws slightly exceeded bond principal payments. This minute change reflects the continuing tight budgetary situation faced by the State in which capital projects have not been authorized in the legislative process.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 and 18-19) provide information about the activities of the State as a whole (government-wide statements) and present a longer-term view of the State's finances. Fund financial statements start on page 22. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the State as a whole begins on page 7. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The Statement of Net Assets displays all the State's financial and capital resources in the format of assets minus liabilities equal net assets. The Statement of Activities reports the State's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or tax revenue) funds the government operations. The State functions that are identified on this statement correspond to the functions used for budgetary purposes:

- Governmental activities–general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; state shared taxes paid to local governments; and interest on long-term debt.

- Business-type activities–employment security, insurance programs, loan programs and other.

- Component units–significant component units include the Tennessee Board of Regents, the University of Tennessee and the Tennessee Housing Development Agency. Although these and other smaller entities are legally separate, these "component units" are important because the State is financially accountable for them.

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the State's major funds begins on page 10. The fund financial statements begin on page 22 and provide detailed information about the most significant funds–not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds–governmental and proprietary–use different accounting approaches.

Governmental funds focus on the near-term inflows and outflows of funds and the balances left at year-end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the State's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the Statement of Net Assets are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas the internal service funds are included in the governmental activities.

Notes to the financial statements. Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

The State as Trustee

Reporting the State's Fiduciary Responsibility

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the State cannot use these assets to finance its operations. Instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by $20.278 billion as of June 30, 2003.

By far the largest portion of the State's net assets (89%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee
Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and other assets	$ 3,503,755	$ 2,915,211	$ 1,307,543	$ 1,352,337	$ 4,811,298	$ 4,267,548
Capital assets	18,653,749	18,012,583			18,653,749	18,012,583
Total Assets	22,157,504	20,927,794	1,307,543	1,352,337	23,465,047	22,280,131
Current and other liabilities	1,476,722	1,114,413	63,786	67,446	1,540,508	1,181,859
Long-term liabilities	1,635,566	1,621,111	11,129	14,000	1,646,695	1,635,111
Total liabilities	3,112,288	2,735,524	74,915	81,446	3,187,203	2,816,970
Net assets:						
Invested in capital assets, net of related debt	18,130,319	17,457,541			18,130,319	17,457,541
Restricted net assets	703,010	665,673	1,181,636	1,239,236	1,884,646	1,904,909
Unrestricted net assets	211,887	69,056	50,992	31,655	262,879	100,711
Total net assets	$ 19,045,216	$ 18,192,270	$ 1,232,628	$ 1,270,891	$ 20,277,844	$ 19,463,161

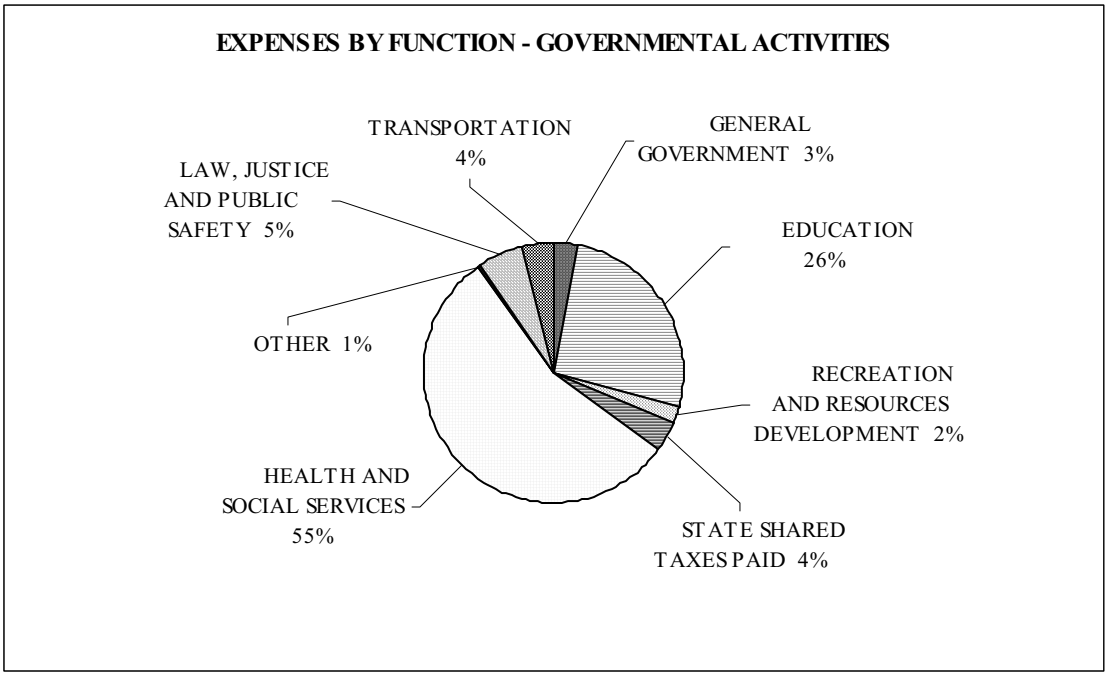
An additional portion of the State's net assets (9.0 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets ($262.879 million) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

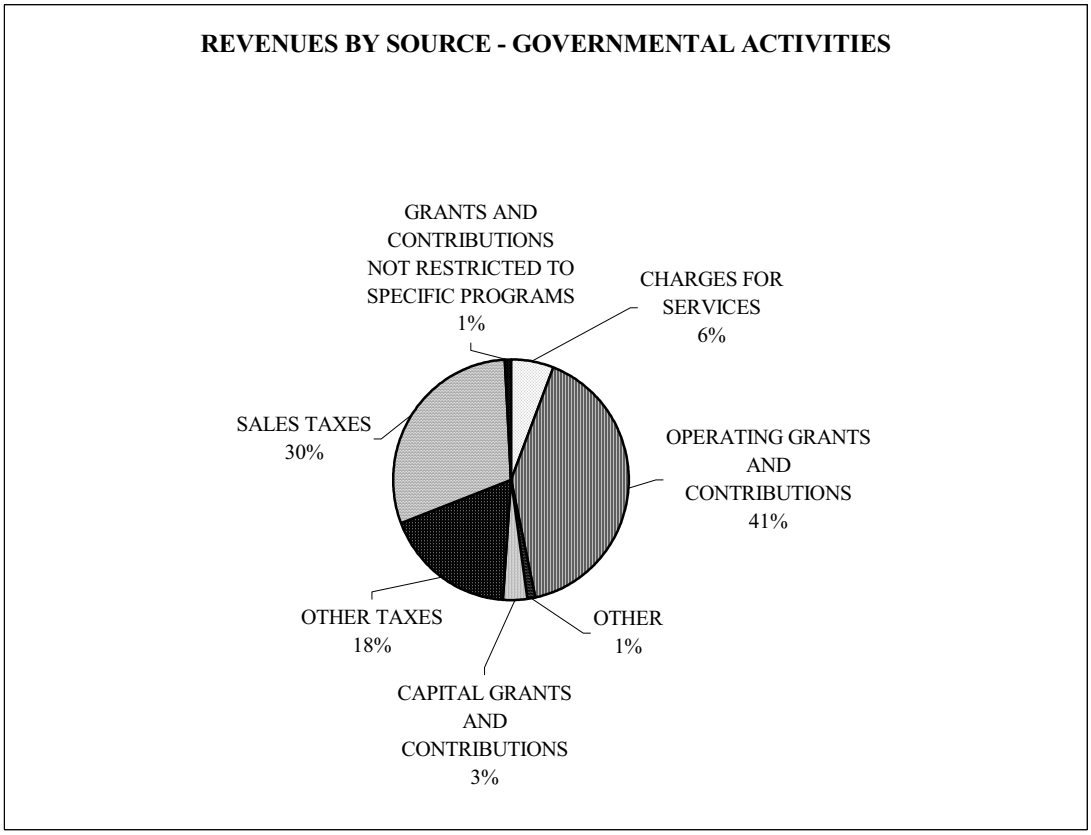
At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, for the government as a whole, and for its separate governmental and business-type activities.

The State's net assets increased by $814.7 million during the year ended June 30, 2003. As previously discussed most of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized $675.1 million in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Most of the remaining gain of $139.6 million resulted from operations in the General Fund, which is discussed later in this MD&A.

State of Tennessee
Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	$ 1,040,020	$ 1,038,116	$ 837,350	$ 688,625	$ 1,877,370	$ 1,726,741
Operating grants and contributions	7,452,665	6,454,927	256,444	342,469	7,709,109	6,797,396
Capital grants and contributions	568,221	560,074			568,221	560,074
General revenues:						
Sales Taxes	5,478,642	4,656,105			5,478,642	4,656,105
Other taxes	3,306,366	3,061,576			3,306,366	3,061,576
Grants and contributions not restricted to specific programs	149,746	159,511			149,746	159,511
Other	242,733	320,108			242,733	320,108
Total revenues	18,238,393	16,250,417	1,093,794	1,031,094	19,332,187	17,281,511
Expenses:						
General government	510,674	514,419			510,674	514,419
Education	4,520,624	4,326,480			4,520,624	4,326,480
Health and social services	9,507,209	8,499,713			9,507,209	8,499,713
Law, justice and public safety	968,859	918,970			968,859	918,970
Recreation and resources development	376,734	362,068			376,734	362,068
Regulation of business and professions	64,109	59,493			64,109	59,493
Transportation	726,476	683,229			726,476	683,229
State shared taxes paid to local governments	641,271	686,515			641,271	686,515
Interest on long-term debt	50,610	55,114			50,610	55,114
Employment security			767,202	739,008	767,202	739,008
Insurance programs			379,661	353,534	379,661	353,534
Loan programs			2,273	2,585	2,273	2,585
Other			1,802	1,410	1,802	1,410
Total expenses	17,366,566	16,106,001	1,150,938	1,096,537	18,517,504	17,202,538
Increase (decrease) in net assets before transfers	871,827	144,416	(57,144)	(65,443)	814,683	78,973
Transfers	(18,881)	(16,819)	18,881	16,819		
Increase (decrease) in net assets	852,946	127,597	(38,263)	(48,624)	814,683	78,973
Net assets, July 1	18,192,270	18,064,673	1,270,891	1,319,515	19,463,161	19,384,188
Net assets, June 30	$ 19,045,216	$ 18,192,270	$ 1,232,628	$ 1,270,891	$ 20,277,844	$ 19,463,161





Net assets of the State's business-type activities decreased by $38.263 million. This decrease was mainly caused by a $100.1 million decrease in the Employment Security Fund, which resulted from the payment of additional unemployment claims necessitated by the downturn in the national economy.

THE STATE'S FUNDS

Tax collections increased for the year and expenditures increased as well. Details are in this section. The Revenue Fluctuation reserve did not have to be used and remains intact at $178 million or 1.4% of General Fund expenditures. Tobacco settlement funds totaling $179.1 million were collected in fiscal year 2003 and were used to fund the current budget. $96.7 million was received from the federal government in fiscal year 2003 as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. These funds were given to states to help fund budgetary deficits. The funds can be used to fund virtually any operating expense of state government. $53.8 million was used to fund current year expenditures. The remaining $42.9 million will be held in reserve for future expenditures.

General Fund revenue collections increased for the year by $1.7 billion. Sales tax collections increased by $757.549 million due to an increase in the sales tax rate effective July 15, 2002. Franchise and excise tax collections were up 13% due to the recovering economy along with a rate increase that was effective during fiscal year 2003. Hall income tax collections were down by 40%, which was attributable to significantly decreased interest rates paid to individuals. The State's interest income was approximately a third of what it was in 2002 due to low interest rates. The State experienced an increase of $840 million in federal revenue due to (1) an increase in expenditures within the TennCare program and (2) an increase in the federal participation under the Federal Medical Assistance Percentages (FMAP). The FMAP was calculated pursuant to Title IV of the Jobs and Growth Tax Relief Act of 2003 and is effective only from April 1, 2003 through June 30, 2004. The overall result of these variations showed an increase in total revenues collected from the previous year of 15.5%.

General Fund expenditures increased approximately $1.1 billion or 10%. $757 million of this increase was due to increased expenditures in the TennCare program resulting from increased pharmaceutical costs, increased managed care organization (MCO) costs, and supplemental provider payments. TennCare assumed financial risk for MCO medical costs on July 1, 2002. This payment method, known as the "Stabilization Plan", is intended to provide financial stability to the MCO's.

In addition, Human Services experienced increased expenditures of $201 million. This increase was due primarily to the increase in food stamp coupons distributed to citizens of approximately $140 million. In addition, expenditures in the Temporary Assistance for Needy Families (TANF) program increased by $11.2 million due to increased caseloads resulting in additional cash assistance. Other TANF related services such as transportation and childcare increased by $38.5 million.

Mental Health and Mental Retardation expenditures increased by $62 million. Almost $11 million of this increase was due to increased census at the regional mental health institutes. Community services for the mentally retarded increased $49.2 million. This increase reflects the rising cost of community residential placements and associated medical costs as well as increased demand for services.

State shared tax payments decreased by $55.6 million in the General Fund. This decrease in payments was due to lower tax collections for local governments primarily in the area of the income tax. Income tax collections were down due to economic factors.

Current assets in the General Fund increased 33% due to a $136 million increase in the tax accrual as well as an increase of $428.2 million in accounts receivable from the federal government. The tax accrual increased due to the increased sales tax rate effective July 15, 2002, as well as increased estimates for other taxes. The federal receivable increased due to increased reimbursement rates in TennCare and increased Mental Retardation receivables in the area of community services for the mentally retarded. Further details on the increased spending in these programs are outlined above.

Current liabilities in the general fund increased 50% due to an increase in TennCare liabilities. These liabilities primarily consist of outstanding provider payments to managed care organizations (MCO). Prior to July 1, 2002, the MCO's were paid at the beginning of each month for coverage for that month. Effective July 1, 2002, the MCO's are paid weekly. In addition, there were other factors discussed with the TennCare expenditures above.

The total plan net assets of the pension trust funds were $23.8 billion, up over $796 million from the prior year. As a result of the improved performance of the financial markets, the pension trust funds incurred a net investment gain of $1.112 billion.

The Education Fund expenditures increased approximately $213.8 million or 5.1%. Most of this increase was to maintain full funding of the Basic Education Program formula and to provide salary increases for teachers ($96 million). In addition, expenditures increased due to the State implementing the No Child Left Behind Act ($34 million) and increased funding for special education programs ($29 million).

The Highway Fund expenditures increased approximately $56.6 million or 3.6%. The majority of the increase was in the area of bridge maintenance and preservation.

Premium increases and changes in benefit levels went into effect on January 1, 2003, for the Employee Group Insurance Fund (an Internal Service Fund) and the Teacher Group Insurance and Local Government Group Insurance Funds (Enterprise Funds) in an attempt to reduce the fund equity deficits in each of the funds at the beginning of fiscal year 2003. While these changes have eliminated the deficits in the Employee and Teacher Group Insurance Funds at June 30, 2003, the Local Government Group Insurance Fund remains in a deficit situation. Additional premium increases and changes in benefit levels will go into effect January 1, 2004, in anticipation of rising medical and insurance costs and to address the remaining deficit in the Local Government Group Insurance Fund.

Since 1985 through fiscal year 2003, the Claims Award Fund (an Internal Service Fund) has been used to account for the risk of losses from general liability, automobile liability, professional malpractice, and workers' compensation. Financial activities relating to the state's property insurance program have been accounted for in the General Fund. Effective July 1, 2003, the property insurance program and the Claims Award Fund activities have been consolidated into an Internal Service Fund called the Risk Management Fund. This was done to obtain a consolidated picture of the State's overall risk management activities and provide operational efficiencies.

General Fund Budgetary Highlights

Federal revenue estimates from original to final budget increased by $1.164 billion primarily due to an increase in federal TennCare participation. In addition, significant variances between original and final budget were noted for TennCare and for Human Services. The TennCare program experienced an increase in funding from original to final budget in the amount of $1.152 billion. This was the result of significant increases in various costs within the program, as discussed on the previous page. The Department of Human Services experienced an increase in funding from original to final budget in the amount of $195 million due to increased federal funding in the food stamps program, as well as increased costs for the Temporary Assistance for Needy Families program because of rising case loads.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets at June 30, 2003 of $18.654 billion, net of $947 million accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
Governmental Activities
(Expressed in Thousands)

	June 30, 2003	June 30, 2002
Land	$ 838,035	$ 684,702
Infrastructure	15,463,371	13,734,930
Construction in progress	1,132,374	2,365,316
Structures and improvements	1,666,665	1,637,956
Machinery and equipment	500,442	478,208
Subtotal	19,600,887	18,901,112
Accumulated depreciation	(947,138)	(887,856)
Total	$ 18,653,749	$ 18,013,256

Capital assets, including those under construction, increased from fiscal year 2002 to 2003 by approximately 3 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure — highways and bridges. Construction in progress for highways and bridges increased by $535.007 million and decreased (projects completed and capitalized) by $1.771 billion. Infrastructure right-of-way acreage increased the land classification by $139.350 million. The structures and improvements increase of $28.709 million consisted largely of prison renovations ($1.52 million), completion of the fire training academy ($23.3 million), construction of the Tennessee Wildlife Resources Agency's hunter education facility ($.6 million), state parks additions and improvements ($.33 million), mental health facility improvements ($.4 million), armory additions ($.312 million), and other small miscellaneous projects. The net change in machinery and equipment of $22.234 million resulted primarily from replacing aged equipment.

In accordance with GASB 34, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and

bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,030 bridges.

The decision to use the modified approach was essentially made because the State has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 87), indicated that bridges were rated at almost 5 points above the State's established condition level and roadways were almost 16 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2002-2003 fiscal year mirrors that of the past few years. Since very few new projects have been approved, the capital outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, and statutory requirements for prisons' physical plant maintenance and additions.

Debt Administration

In accordance with the Constitution, the State has the authority to issue general obligation debt that is backed by the full faith and credit of the State. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding $100 thousand (for new construction) and maintenance to existing facilities. The State issues Commercial Paper as a short-term financing mechanism for capital purposes and the Commercial Paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

Purpose	Unissued June 30, 2003
Highway	$ 715,500
Higher Education	16,043
Environment and Conservation	18,077
General Government	558,575
Local Development Authority	19,300
Other	41
Total	$ 1,327,536

More detail of the activity during the fiscal year is presented in Note 5I to the financial statements.

The State's outstanding general obligation debt consists of the following (expressed in thousands):

	Governmental Activities		Business-Type Activities	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Bonds, net	$ 1,047,531	$ 1,134,881	$ 11,070	$ 13,924
Commercial Paper	201,800	110,700		
Total	$ 1,249,331	$ 1,245,581	$ 11,070	$ 13,924

The State did not issue bonds during the fiscal year; however, taxable and tax-exempt bonds were issued in the first quarter of the new fiscal year primarily to redeem commercial paper. More than half of the outstanding debt has been issued either for capital projects of two of the State's major Component Units—University of Tennessee and Tennessee Board of Regents—or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5I to the financial statements.

The State's bond ratings have not changed since the previous year. The State's bonds are rated AA, Aa2, and AA by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2003, the State's annual debt service limit of $550.211 million was well above the debt service required $148.079 million, with a legal debt service margin of $402.132 million.

FACTORS THAT WILL AFFECT THE FUTURE

The Legislature authorized a lottery referendum to be placed on the November 2002 ballot. The referendum passed, which gave the Legislature the authority to enact a lottery. The lottery that was authorized created a component unit, the Tennessee Education Lottery Corporation (TELC). The TELC is to establish a lottery with the net lottery proceeds (revenues less lottery operating costs) being transferred to the Education Fund. The net lottery proceeds are to be used to provide financial assistance to Tennessee citizens to enable such citizens to attend post-secondary educational institutions located within Tennessee, for capital outlay projects for K-12 education facilities, for early learning programs, and for after school programs in accordance with the provisions of Article XI, Section 5 of the Constitution of Tennessee. It is anticipated that the lottery will begin operation in early calendar year 2004.

The State lost an appeal about sufficiency of teacher pay equity provided in the State's funding model for public education. The State Legislature will address the teacher pay funding issue in a future session.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 8th Avenue North, Suite 1400, Nashville, TN 37243.

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Assets
June 30, 2003

(Expressed in Thousands)

	Primary Government			Total
	Governmental	Business-Type		Component
Assets	Activities	Activities	Total	Units
Cash and cash equivalents	$ 1,132,587	$ 243,292	$ 1,375,879	$ 767,072
Cash on deposit with fiscal agent		595,257	595,257	2
Investments	205,560		205,560	783,730
Investments with fiscal agent				5
Receivables, net	2,065,381	118,652	2,184,033	451,933
Internal balances	14,205	(14,205)		
Due from primary government				15,978
Due from component units	4,776	37	4,813	
Inventories, at cost	27,983	18	28,001	13,479
Prepayments	169		169	6,668
Loans receivable, net	21,823	364,422	386,245	1,985,955
Lease receivable	11,847		11,847	
Deferred charges and other	1,545	70	1,615	19,689
Restricted assets:				
Cash and cash equivalents	17,879		17,879	451,439
Investments				230,857
Receivables, net				2,627
Capital assets:				
Land, at cost	838,035		838,035	129,947
Infrastructure	15,463,371		15,463,371	197,395
Structures and improvements, at cost	1,666,665		1,666,665	2,418,030
Machinery and equipment, at cost	500,442		500,442	682,330
Less-Accumulated depreciation	(947,138)		(947,138)	(1,476,152)
Construction in progress	1,132,374		1,132,374	223,913
Total assets	22,157,504	1,307,543	23,465,047	6,904,897
Liabilities				
Accounts payable and other current liabilities	1,186,310	58,022	1,244,332	258,520
Due to primary government				4,813
Due to component units	15,976	2	15,978	
Deferred revenue	261,475	5,762	267,237	99,767
Payable from restricted assets	5,421		5,421	
Other	7,540		7,540	152,839
Noncurrent liabilities:				
Due within one year	212,780	3,018	215,798	403,114
Due in more than one year	1,422,786	8,111	1,430,897	2,717,065
Total liabilities	3,112,288	74,915	3,187,203	3,636,118
Net assets				
Invested in capital assets, net of related debt	18,130,319		18,130,319	1,698,754
Restricted for:				
Highway	150,487		150,487	
Debt service				6,222
Capital projects	12,458		12,458	27,503
Single family bond programs				390,631
Other	312,216	1,181,636	1,493,852	235,987
Permanent:				
Expendable	13,788		13,788	99,709
Nonexpendable	214,061		214,061	325,505
Unrestricted	211,887	50,992	262,879	484,468
Total net assets	$ 19,045,216	$ 1,232,628	$ 20,277,844	$ 3,268,779

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Activities
For the Year Ended June 30, 2003

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 510,674	$ 273,503	$ 64,308	$ 224
Education	4,520,624	15,922	622,560	
Health and social services	9,507,209	190,570	6,548,508	
Law, justice and public safety	968,859	336,115	78,309	2,695
Recreation and resources development	376,734	114,618	99,170	7,161
Regulation of business and professions	64,109	95,953	1,072	
Transportation	726,476	13,339	38,738	558,141
State shared taxes paid to local governments	641,271			
Interest on long-term debt	50,610			
Total governmental activities	17,366,566	1,040,020	7,452,665	568,221
Business-type activities:				
Employment security	767,202	437,378	229,697	
Insurance programs	379,661	385,384	751	
Loan programs	2,273	12,590	25,973	
Other	1,802	1,998	23	
Total business-type activities	1,150,938	837,350	256,444	
Total primary government	$ 18,517,504	$ 1,877,370	$ 7,709,109	$ 568,221
Component units:				
Higher education institutions	$ 2,828,301	$ 847,111	$ 843,750	$ 161,936
Loan programs	351,635	146,111	190,205	
Other	84,422	25,720	53,178	
Total component units	$ 3,264,358	$ 1,018,942	$ 1,087,133	$ 161,936

General revenues:
Taxes:
Sales and use
Fuel
Business
Other
Payments from primary government
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Contributions to permanent funds
Transfers

Total general revenues, contributions, and transfers

Change in net assets
Net assets, July 1

Net assets, June 30

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (172,639)		$ (172,639)	
(3,882,142)		(3,882,142)	
(2,768,131)		(2,768,131)	
(551,740)		(551,740)	
(155,785)		(155,785)	
32,916		32,916	
(116,258)		(116,258)	
(641,271)		(641,271)	
(50,610)		(50,610)	
(8,305,660)		(8,305,660)	
	$ (100,127)	(100,127)	
	6,474	6,474	
	36,290	36,290	
	219	219	
	(57,144)	(57,144)	
(8,305,660)	(57,144)	(8,362,804)	
			$ (975,504)
			(15,319)
			(5,524)
			(996,347)
5,478,642		5,478,642	
813,554		813,554	
2,067,713		2,067,713	
425,099		425,099	
			1,109,150
149,746		149,746	31,234
11,582		11,582	21,277
230,770		230,770	1,801
381		381	14,281
(18,881)	18,881		
9,158,606	18,881	9,177,487	1,177,743
852,946	(38,263)	814,683	181,396
18,192,270	1,270,891	19,463,161	3,087,383
$ 19,045,216	$ 1,232,628	$ 20,277,844	$ 3,268,779

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund – The General Fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund - This fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

Highway Fund - This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the Highway Fund are received on a reimbursement basis covering costs incurred. It is the State's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the General Fund earns the interest on the other highway program monies.

Nonmajor Governmental Funds – Nonmajor governmental funds are presented by fund type in the supplementary section.

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2003

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 228,544	$ 9	$ 142,706	$ 470,748	$ 842,007
Investments				205,560	205,560
Receivables, net	1,445,734	452,422	148,395	14,294	2,060,845
Due from other funds	246,981	2,926	8	11	249,926
Due from component units	2,422	963		763	4,148
Inventories, at cost	15,376		6,523		21,899
Prepayments	8				8
Deferred charges and other			5,688		5,688
Loans receivable, net	200		2,169	19,454	21,823
Leases receivable	7,920				7,920
Restricted assets:					
Cash and cash equivalents				17,879	17,879
Total assets	$ 1,947,185	$ 456,320	$ 305,489	$ 728,709	$ 3,437,703
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 881,823	$ 105,769	$ 81,542	$ 33,667	$ 1,102,801
Due to other funds	13,157	232,483	1,234	321	247,195
Due to component units	9,380	65		6,531	15,976
Deferred revenue	353,610	74,024	8,966	10,940	447,540
Payable from restricted assets				5,421	5,421
Other	293		7,246	1	7,540
Total liabilities	1,258,263	412,341	98,988	56,881	1,826,473
Fund balances:					
Reserved for:					
Related assets	18,891		6,523		25,414
Encumbrances and contracts	7,273		14,946	60,804	83,023
Continuing appropriations	297,425	43,444			340,869
Specific purposes:					
Federal tax relief	42,900				42,900
Title and registration system	17,451				17,451
Probation supervision and rehabilitation	9,664				9,664
Arts Commission	5,117				5,117
Commerce and Insurance regulatory boards	10,293				10,293
Construction projects			160,623	126,885	287,508
Wildlife Resources				36,268	36,268
Criminal injuries				4,178	4,178
Environmental programs				35,690	35,690
Job skills				23,497	23,497
Enhanced 911 service				48,431	48,431
Parks acquisition				19,710	19,710
Community development				26,218	26,218
Other specific purposes	77,305	535	24,359	62,298	164,497
Permanent funds:					
Expendable				13,788	13,788
Nonexpendable				214,061	214,061
Unreserved:					
Designated for revenue fluctuations	178,000				178,000
Designated for other specific purposes	24,403		50		24,453
Undesignated	200				200
Total fund balances	688,922	43,979	206,501	671,828	1,611,230
Total liabilities and fund balances	$ 1,947,185	$ 456,320	$ 305,489	$ 728,709	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,256,325
Deferred charges are not available to pay for current-period expenditures and are therefore not reported in the funds.	478
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	215,336
Internal Service Funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of Internal Service Funds are included in the governmental activities in the Statement of Net Assets.	360,661
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,398,814)
Net assets of governmental activities	$ 19,045,216

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Sales	$ 2,237,499	$ 3,160,076	$ 22,800	$ 39,069	$ 5,459,444
Fuel	12,216		709,628	94,555	816,399
Business	1,739,879	132,707	4,220	109,242	1,986,048
Other	403,091	113		30,503	433,707
Licenses, fines, fees, and permits	162,758	1,823	195,798	120,250	480,629
Interest on investments	13,639		14	14,776	28,429
Federal	6,442,962	602,004	566,350	35,068	7,646,384
Departmental services	1,617,726	17,253	36,188	44,992	1,716,159
Other	375,363	2,526	4,804	1,843	384,536
Total revenues	13,005,133	3,916,502	1,539,802	490,298	18,951,735
Expenditures					
Current:					
General government	375,457			17,290	392,747
Education		4,424,433		7,638	4,432,071
Health and social services	10,342,682				10,342,682
Law, justice and public safety	963,991			6,051	970,042
Recreation and resources development	286,941			155,974	442,915
Regulation of business and professions	54,582			16,527	71,109
Transportation			1,357,941		1,357,941
State shared taxes paid to local governments	360,801		280,470		641,271
Debt service:					
Principal				78,108	78,108
Interest				47,964	47,964
Debt issuance costs				650	650
Capital outlay				132,949	132,949
Total expenditures	12,384,454	4,424,433	1,638,411	463,151	18,910,449
Excess (deficiency) of revenues over (under) expenditures	620,679	(507,931)	(98,609)	27,147	41,286
Other financing sources (uses)					
Bonds and commercial paper issued				95,195	95,195
Commercial paper redeemed				(3,900)	(3,900)
Transfers in	31,250	511,220	77,000	60,273	679,743
Transfers out	(594,548)	(1,016)	(31,142)	(81,546)	(708,252)
Total other financing sources (uses)	(563,298)	510,204	45,858	70,022	62,786
Net change in fund balances	57,381	2,273	(52,751)	97,169	104,072
Fund balances, July 1	631,541	41,706	259,252	574,659	1,507,158
Fund balances, June 30	$ 688,922	$ 43,979	$ 206,501	$ 671,828	$ 1,611,230

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2003

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$ 104,072
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.	685,482
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	90,932
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(17,187)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(46,648)
Internal service funds are used by management to charge the cost of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.	36,295
Changes in net assets of governmental activities	$ 852,946

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sewer Treatment Loan – Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund - This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these monies is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the General Fund.

Nonmajor Enterprise Funds – Nonmajor Enterprise Funds are presented in the supplementary section.

Internal Service Funds – Internal Service Funds are presented in the supplementary section.

State of Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2003

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
Assets	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Current assets:					
Cash and cash equivalents	$ 144,687		$ 98,605	$ 243,292	$ 290,580
Cash on deposit with fiscal agent		$ 595,257		595,257	
Receivables:					
Accounts receivable			2,918	2,918	4,838
Interest	26	4,771	2	4,799	
Loans receivable-current	18,877		5,163	24,040	
Other		110,935		110,935	
Due from other funds		431		431	266
Due from component units		14	23	37	628
Inventory			18	18	6,084
Prepaid expenses					161
Total current assets	163,590	711,408	106,729	981,727	302,557
Noncurrent assets:					
Deferred charges			70	70	488
Loans receivable	306,990		33,392	340,382	
Lease receivable					3,625
Loans to other funds					4,266
Capital assets:					
Land, at cost					54,443
Structures and improvements, at cost					409,654
Machinery and equipment, at cost					230,465
Less-accumulated depreciation					(305,608)
Construction in progress					8,470
Total capital assets, net of accumulated depreciation					397,424
Total noncurrent assets	306,990		33,462	340,452	405,803
Total assets	470,580	711,408	140,191	1,322,179	708,360
Liabilities					
Current liabilities:					
Accounts payable and accruals	5	18,030	40,011	58,046	73,388
Due to other funds		12,101	2,539	14,640	585
Due to component units			2	2	
Lease obligations payable					29
Bonds payable-current			2,990	2,990	12,992
Deferred revenue		4,004	1,758	5,762	29,271
Other					29,596
Total current liabilities	5	34,135	47,300	81,440	145,861
Noncurrent liabilities:					
Lease obligations payable					32
Commercial paper payable					7,936
Bonds payable, net			8,080	8,080	134,205
Other noncurrent liabilities			31	31	59,665
Total noncurrent liabilities			8,111	8,111	201,838
Total liabilities	5	34,135	55,411	89,551	347,699
Net assets					
Invested in capital assets, net of related debt					242,230
Restricted	470,575	677,273	33,788	1,181,636	
Unrestricted (deficit)			50,992	50,992	118,431
Total net assets	$ 470,575	$ 677,273	$ 84,780	$ 1,232,628	$ 360,661

The notes to the financial statements are an integral part of this statement.

State of Tennsssee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Operating revenues					
Charges for services	$ 11,505		$ 3,083	$ 14,588	$ 383,988
Investment income	2,054		554	2,608	
Premiums		$ 437,378	385,384	822,762	481,389
Other			6	6	3
Total operating revenues	13,559	437,378	389,027	839,964	865,380
Operating expenses					
Personal services			638	638	41,689
Contractual services	923		34,095	35,018	221,093
Materials and supplies			587	587	54,179
Rentals and insurance			152	152	37,848
Interest			628	628	
Depreciation and amortization			10	10	32,409
Benefits		765,816	344,262	1,110,078	441,477
Other		1,386	2,416	3,802	4,797
Total operating expenses	923	767,202	382,788	1,150,913	833,492
Operating income (loss)	12,636	(329,824)	6,239	(310,949)	31,888
Nonoperating revenues (expenses)					
Taxes					3
Operating grants	16,438	191,511	6,902	214,851	
Interest income		38,186	768	38,954	2,767
Interest expense					(8,004)
Total nonoperating revenues (expenses)	16,438	229,697	7,670	253,805	(5,234)
Income (loss) before contributions and transfers	29,074	(100,127)	13,909	(57,144)	26,654
Capital contributions					13
Transfers in	4,994		13,887	18,881	9,628
Change in net assets	34,068	(100,127)	27,796	(38,263)	36,295
Net assets, July 1	436,507	777,400	56,984	1,270,891	324,366
Net assets, June 30	$ 470,575	$ 677,273	$ 84,780	$ 1,232,628	$ 360,661

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Fund				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Cash flows from operating activities					
Receipts from customers and users		$ 417,033	$ 387,218	$ 804,251	$ 327,845
Receipts from interfund services provided		1,755	174	1,929	557,808
Payments to suppliers	$ (11)		(381,200)	(381,211)	(706,465)
Payments to employees			(662)	(662)	(41,715)
Payments for unemployment benefits		(772,308)		(772,308)	
Payments for interfund services used	(912)	(1,386)	(3,198)	(5,496)	(55,620)
Net cash from (used for) operating activities	(923)	(354,906)	2,332	(353,497)	81,853
Cash flows from noncapital financing activities					
Operating grants received	16,438	192,755	6,927	216,120	
Negative cash balance implicitly financed			2,535	2,535	
Negative cash balance implicitly repaid		(5,690)		(5,690)	(177)
Transfers in	4,994		13,887	18,881	9,629
Payments to component units			(25)	(25)	
Principal payments			(2,845)	(2,845)	
Interest paid			(684)	(684)	
Tax revenues received					3
Subsidy to borrowers			(65)	(65)	
Net cash from (used for) noncapital financing activities	21,432	187,065	19,730	228,227	9,455
Cash flows from capital and related financing activities					
Purchase of capital assets					(35,614)
Bond and commercial paper proceeds					3,805
Proceeds from sale of capital assets					2,193
Principal payments					(13,080)
Interest paid					(8,131)
Net cash from (used for) capital and related financing activities					(50,827)
Cash flows from investing activities					
Loans issued	(27,679)		(8,620)	(36,299)	
Collection of loan principal	34,440		6,316	40,756	
Proceeds from investments			1,112	1,112	
Interest received	13,546	37,310	2,425	53,281	2,767
Net cash from (used for) investing activities	20,307	37,310	1,233	58,850	2,767
Net increase (decrease) in cash and cash equivalents	40,816	(130,531)	23,295	(66,420)	43,248
Cash and cash equivalents, July 1	103,871	725,788	75,310	904,969	247,332
Cash and cash equivalents, June 30	$ 144,687	$ 595,257	$ 98,605	$ 838,549	$ 290,580

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Business Type Activities - Enterprise Fund				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 12,636	$ (329,824)	$ 6,239	$ (310,949)	$ 31,888
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization			10	10	32,405
Provision for uncollectible accounts			8	8	
Loss on disposal of capital assets					1,138
Gain on disposal of capital assets					(127)
Investment income			(554)	(554)	
Charges for services	(11,505)		(1,085)	(12,590)	
Interest income	(2,054)			(2,054)	
Interest expense			628	628	
Subsidy to borrowers			33	33	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		(22,058)	(2,297)	(24,355)	(865)
(Increase) decrease in due from other funds		(142)		(142)	1
(Increase) decrease in due from component units		(6)	(16)	(22)	(483)
(Increase) decrease in inventories			(15)	(15)	(923)
(Increase) decrease in prepaid expenses					127
(Increase) decrease in loans to other funds					2,245
Increase (decrease) in accounts payable		(2,591)	(1,245)	(3,836)	10,318
Increase (decrease) in due to other funds		9		9	121
Increase (decrease) in due to component units			2	2	
Increase (decrease) in deferred revenue		(294)	624	330	6,008
Total adjustments	(13,559)	(25,082)	(3,907)	(42,548)	49,965
Net cash provided by (used for) operating activities	$ (923)	$ (354,906)	$ 2,332	$ (353,497)	$ 81,853
Noncash investing, capital and financing activities					
Contributed capital assets					$ 13
Capital asset disposed of by capital lease					(28)
Total noncash investing, capital and financing activities					$ (15)

The notes to the financial statements are an integral part of this statement.

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and other Employee Benefit) Trust Funds – These are presented by fund in the supplementary section.

Investment Trust Fund – This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

Private–Purpose Trust Funds – These are presented by fund in the supplementary section.

Agency Funds – These are presented by fund in the supplementary section.

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 1,718,050	$ 968,464	$ 33,216	$ 289,418
Receivables:				
Taxes				253,435
Interest and dividends	134,284	3,072	221	
Due from sale of investments	59,060			
Forward contracts	523,210			
Due from other governments	20,858			
Other	18,449		2,114	
Total receivables	755,861	3,072	2,335	253,435
Due from other funds	3,872		9	7,916
Due from component units	3,822			47
Investments, at fair value:				
Short-term securities	498,577	679,336		
Government bonds	10,413,472		29,455	
Corporate bonds	2,311,765			
Corporate stocks	8,639,404			
Mutual funds			10,531	
Real estate	372,307			
Total investments	22,235,525	679,336	39,986	
Total assets	24,717,130	1,650,872	75,546	550,816
Liabilities				
Accounts payable and accruals	390,737		2,347	488,183
Forward contracts payable	547,519			
Amounts held in custody for others				62,633
Total liabilities	938,256		2,347	550,816
Net assets				
Held in trust for:				
Pension benefits	23,778,484			
Employees' flexible benefits	390			
Pool participants		1,650,872		
Individuals, organizations and other governments			73,199	
Total net assets	$ 23,778,874	$ 1,650,872	$ 73,199	$ -

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 202,376		
Employers	264,321		
Federal			$ 8,508
Political subdivisions	134,014		
Private			8,714
Other			5,036
Total contributions	600,711		22,258
Investment income:			
Net increase in fair value of investments	268,966		892
Interest	670,383	$ 27,327	1,554
Dividends	159,130		
Real estate income	27,813		
Total investment income	1,126,292	27,327	2,446
Less: Investment expenses	13,813		
Administrative fee		846	
Net investment income	1,112,479	26,481	2,446
Capital share transactions:			
Shares sold		3,521,059	
Less: Shares redeemed		3,669,328	
Net capital share transactions		(148,269)	
Total additions	1,713,190	(121,788)	24,704
Deductions			
Annuity benefits:			
Retirement benefits	726,495		
Cost of living	150,691		
Death benefits	4,046		
Other benefits	4,556		9,414
Refunds	26,632		3,344
Administrative expenses	5,056		294
Total deductions	917,476		13,052
Change in net assets held in trust for:			
Pension benefits	795,605		
Employees' flexible benefits	109		
Individuals, organizations and other governments		(121,788)	11,652
Net assets, July 1	22,983,160	1,772,660	61,547
Net assets, June 30	$ 23,778,874	$ 1,650,872	$ 73,199

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Comprehensive Annual Financial Report
For the Year Ended June 30, 2003

INDEX FOR THE NOTES

	Page
NOTE 1 – Summary of significant accounting policies	35
A. Financial reporting entity	35
B. Government-wide and fund financial statements	36
C. Measurement focus, basis of accounting, and financial statement presentation	37
D. Assets, liabilities, and net assets or equity	38
NOTE 2 – Reconciliation of government-wide and fund financial statements	41
A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets	41
B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities	41
NOTE 3 – Stewardship, compliance and accountability	42
A. Budgetary process	42
B. Deficit fund equity	43
NOTE 4 – Accounting changes	43
NOTE 5 – Detailed notes on all funds	44
A. Deposits and investments	44
B. Accounts and notes receivable	51
C. Capital assets	52
D. Interfund balances	53
E. Loans from Other Funds	55
F. Transfers	55
G. Lease obligations	56
H. Lease receivables	57
I. Long term debt	58
J. Payables	61
K. Component units – condensed financial statements	61
L. Major component units – long term debt	64
M. Nonmajor component units – long term debt	66
N. Component Units – changes in long term obligations	69
O. Endowments – component units	70
NOTE 6 – Other information	70
A. Risk management	70
B. Related organizations	75
C. Jointly governed organizations	75
D. Joint ventures	76
E. Post employment health insurance benefits	76
F. Gain contingencies	77
G. Pension plans	77
H. Investment pool	79
I. Loan guarantees	79
J. Nashville correctional facilities revenue bonds	79
K. Litigation	79
L. Federal grants	80
M. Subsequent events	80

NOTE 1 – **Summary of significant accounting policies**

A. **Financial reporting entity**

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the State) and its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government.

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.

2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide a mechanism to facilitate the provision of services for children and other citizens in need of services from state agencies:

   Davidson County Community Services Agency
   Knox County Community Services Agency
   Shelby County Community Services Agency
   Hamilton County Community Services Agency
   Northeast Community Services Agency
   East Tennessee Community Services Agency
   Upper Cumberland Community Services Agency
   Southeast Community Services Agency
   Mid-Cumberland Community Services Agency
   South Central Community Services Agency
   Northwest Community Services Agency
   Southwest Community Services Agency

   The Boards for these CSAs are appointed by the Governor and the budget must be approved by the State.

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency consists of state officials, appointees of the Governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the State.

4. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.

5. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.

6. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.

7. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.

8. The Child Care Facilities Corporation (Proprietary Fund Type) purpose is to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The Board is comprised primarily of state officials. The State must approve the budget of the Corporation.

9. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.

10. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency
1114 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

Tennessee Local Development Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, TN 37130

Tennessee State School Bond Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

University of Tennessee
Office of the Treasurer
301 Andy Holt Tower
Knoxville, TN 37996-0100

Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

All others may be obtained at the following address:
Finance & Administration
Division of Accounts
14th Floor William R. Snodgrass Tennessee Tower
312 Eighth Avenue North
Nashville, TN 37243-0298

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due.

Sales taxes, petroleum and vehicular related taxes and fees, and gross receipt taxes are considered to be available if received in the first 60 days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal period are all considered to be available if received in twelve months. All other revenue items are considered to be measurable and available only when cash is received by the State.

The State reports the following major governmental funds:

The *general fund* is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for the financial resources associated with programs involving the Departments of Education and Higher Education.

The *highway fund* accounts for the financial resources associated with the programs of the Department of Transportation.

The State reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the State reports the following fund types:

Internal service funds account for services provided to other departments or agencies of the State, or to other governments, on a cost reimbursement basis.

The *fiduciary fund types* are used to account for resources legally held in trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of internal activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements. An exception is that interfund services provided and used between functions have not been eliminated.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then, unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments — The State's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the State. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the State's policy to include cash management pools as cash.

   Investments not in the State Cash Pool are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

2. Receivables and payables — All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

   All receivables are shown net of an allowance for uncollectibles. Receivables in the State's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items —Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a Special Revenue Fund) and Motor Vehicle Management, Central Stores and General Services Printing (Internal Service Funds). The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets — Proceeds of the State's general obligation commercial paper program that remain unspent at year end are classified as restricted cash on the Statement of Net Assets. The commercial paper program provides short-term financing for the State's capital projects.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

5. Capital assets — Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure, are defined by the State as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Infrastructure assets are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

   The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

   Major outlays for capital assets and improvements are capitalized as projects are constructed.

   The State has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Machinery and Equipment	4-20

6. Compensated absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.

7. Long-term obligations —In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

   In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Restricted net assets — Restricted net assets consist of net assets in which constraints are placed on the use of those net assets by either external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.885 billion restricted by the primary government, $456 million was by enabling legislation.

9. Fund equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Fiscal year end — The fiscal year end of the primary government and component units is June 30, except for the Dairy Promotion Board, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers' Organization, a component unit, has a December 31 year end.

11. Comparative data/reclassifications — Comparative total data for the prior year have not been presented.

NOTE 2 – **Reconciliation of government-wide and fund financial statements**

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,398.814 million difference are as follows (expressed in thousands):

Bonds payable	$ 895,550
Plus: Premium on bonds issued (to be amortized as interest expense)	4,784
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(586)
Commercial paper payable	193,864
Accrued interest payable	10,668
Capital leases payable	728
Claims and judgments	28,608
Compensated absences	172,413
Loans to other funds	4,266
Long-term accounts payable	88,519
Net adjustment to reduce *fund balance—total governmental funds* to arrive at *net assets—governmental activities*	$ 1,398,814

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $685.482 million difference are as follows (expressed in thousands):

Capital outlay	$ 737,385
Depreciation expense	(51,903)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 685,482

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $17.187 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of commercial paper	$ 95,195
Principal repayments:	
General obligation debt	(78,008)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 17,187

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $46.648 million difference are as follows (expressed in thousands):

Compensated absences	$ 10,059
Claims and judgments	(8,982)
Accrued interest	2,698
Loans from other funds	(2,245)
Capital lease	133
Amortization of deferred charge	40
Loss on disposal of capital assets	45,171
Amortization of issuance costs	32
Amortization of bond premiums	(258)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 46,648

NOTE 3 – **Stewardship, compliance and accountability**

A. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Unencumbered appropriations lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $250.611 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of encumbrance and contract obligations. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis.

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances outstanding at year end are reported as reservations of fund balance for subsequent year expenditure.

B. Deficit fund equity

The Local Government Group Insurance Fund, an Enterprise Fund, has a total net asset deficit of $13.01 million. This deficit was caused by escalating insurance costs. Rate hikes are scheduled to go into place effective January 1, 2004, to address the deficit.

The Claims Award Fund, an Internal Service Fund, has a total net asset deficit of $15.695 million. This deficit was caused by a higher level of payment on claims than expected. Additional billings to state agencies will be made during fiscal year 2003-2004 to address this deficit. The General Services Printing Fund, an Internal Service Fund, has an unrestricted net asset deficit of $116 thousand. This deficit was a result of lower than expected volume of customer requests for service. The printing operations are being reviewed for implementing additional efficiencies in order to lower costs.

The Certified Cotton Growers' Organization, a component unit, has a total net asset deficit of $24.843 million. This deficit was caused where a substantial amount of funds were borrowed to fund the balance of program costs. The monies borrowed are to be repaid by December 17, 2006.

NOTE 4 – Accounting changes

The following schedule enumerates adjustments for the fiscal year ending June 30, 2003 (expressed in thousands):

	6/30/2002 Net Assets As Reported	Fund Reclassifications	Prior Period Adjustments	6/30/2002 Net Assets As Restated
Government-wide statements:				
Primary Government				
Governmental activities:	$ 18,825,375			$ 18,825,375
Infrastructure			$ (631,753)	(631,753)
Nonmajor governmental fund		$ (1,352)		(1,352)
Total governmental activities	18,825,375	(1,352)	(631,753)	18,192,270
Business-type activities:	1,269,539			1,269,539
Nonmajor business-type		1,352		1,352
Total business-type activities	1,269,539	1,352		1,270,891
Total primary government	$ 20,094,914	$ -	$ (631,753)	$ 19,463,161
Government-wide statements:				
Component Units	$ 3,067,798			$ 3,067,798
University of Tennessee			$ 17,250	17,250
Tennessee Board of Regents			2,335	2,335
Total component units	$ 3,067,798		$ 19,585	$ 3,087,383

Fund Reclassifications

This column on the above schedule includes a reclassification of the Client Protection Program from special revenue fund to enterprise fund.

Prior Period Adjustments

Infrastructure - $631.753 million is a correction of an error resulting from the overstatement of capitalized infrastructure.

Tennessee Board of Regents - $3.961 million is a University of Memphis correction of error in prior year resulting in understating revenue and overstating deferred revenue. $1.626 million is an East Tennessee State University correction of error to increase accumulated depreciation on equipment.

University of Tennessee - $17.250 million is correction of an error in overstating depreciation expense related to buildings that had been fully depreciated.

Change in Accounting Principle

Fiduciary activities—Pension (and other employee benefit trusts). The Tennessee Consolidated Retirement System changed its method of reporting foreign currency forward contracts to include their associated unrealized gains and losses on the financial statements rather than through footnote disclosure. The effect on net assets follows:

Net assets, July 1, 2002	$ 23,048,367
Cumulative effect of change	(65,207)
Net assets, July 1, 2002 restated	$ 22,983,160

NOTE 5 – **Detailed notes on all funds**

A. **Deposits and investments**

1. Pooled investments – The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories; prime commercial paper and prime banker's acceptances; bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States; and in certain obligations of the State. This resolution further states that the dollar weighted average maturity of the State Pooled Investment Fund shall not exceed 90 days and that no investment may be purchased with a remaining maturity of greater than 397 calendar days.

   The State Pooled Investment Fund is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the fund loan specific securities from its holdings to the broker in return for collateral securities. Statute requires that the loaned securities be collateralized at 102% of their market value. There were no securities on loan from the State Pooled Investment Fund during fiscal year 2003.

   Statutes require the state deposits be secured by collateral securities with a market value of 105% of the face of the deposit secured thereby after considering the applicable FDIC coverage, or the depository must be a member of the State Collateral Pool and the pool must have securities pledged which in total equal the required percentage established by the Collateral Pool Board.

   Certificates of deposit are not placed or renewed with a financial institution until adequate collateral is pledged. Open accounts maintained for deposit of state revenues are collateralized on an estimate of the average daily balance in the account based on previous balances and monitored for variation to actual balances. The Treasurer is required, by statute, to evaluate the market value of required collateral monthly, and more frequently if market conditions require. Further, statutes provide the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as

a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All repurchases are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The policy guidelines approved by the State Funding Board require that the market value of the securities underlying the repurchase agreement be at least 102% of the cash investment. The policy also requires that collateral securities be marked-to-market daily and be maintained at a value equal to or greater than the cash investment. Prime commercial paper may be acquired from authorized broker dealers or directly from the issuer. There is no collateral requirement for prime commercial paper.

The Tennessee Consolidated Retirement System (TCRS), in addition to the guidelines outlined for the Pooled Investment Fund, may invest in long-term investments. The TCRS may invest in bonds, debentures, preferred stock and common stock, real estate, and other good and solvent securities subject to the TCRS Board of Trustees approval. The Board has also authorized limited investments of securities in some foreign countries.

2. Valuation of investments

   a. State Pooled Investment Fund – The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the State Funding Board, operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2003, the State had not obtained or provided any legally binding guarantees to support the value of participant shares.

   b. Other Investments – Investments not included in the SPIF are valued at fair value.

3. Securities lending — The TCRS and the Chairs of Excellence (COE), a permanent fund, are authorized by their investment policies, as adopted by their boards, to enter into collateralized securities lending agreements whereby the TCRS and COE loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' and COE's assets. The TCRS' and COE's custodian bank manages the lending program and maintains the collateral on behalf of the TCRS and COE. The borrower must deliver collateral to the lending agent in the form of cash or bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies or by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises. Cash received as collateral may be reinvested by the lending agency in accordance with the investment policy, as further restricted under the TCRS and COE securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

   The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of the collateral investments and the securities loans, all securities on loan can be terminated on demand by either the TCRS/COE or the borrower. At year-end, TCRS and COE had no securities on loan.

4. Asset-Backed Securities - The TCRS invests in collateralized mortgage obligations (CMOs), which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The CMOs held were issued by quasi-U.S. governmental agencies. At June 30, 2003, the market value of CMO's was $9,715,380. The TCRS also invests in various asset-backed securities, representing ownership interests in trusts consisting of credit card or auto loan receivables. These securities are issued by organizations with AAA or AA credit ratings. TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets.

5. Derivatives – The TCRS may buy or sell equity index futures contracts for the purpose of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. The futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The TCRS can increase (decrease) equity market exposure by buying (selling) the equity index future to obtain its target domestic equity allocation. Gains (losses) on equity index future hedge losses (gains) produced by any deviation from the TCRS' target equity allocation.

   At June 30, 2003, the TCRS was not under any futures contracts. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contracts are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date.

   The International securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars.

6. Deposits — Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the state's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. Category 3 deposits are uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the state's name.

   At year end, the carrying amount of deposits in all funds was $1,865.144 million and the bank balance, including accrued interest, was $2,055.117 million. Of the bank balance, $2,053.264 million was (category 1) covered by insurance or collateral (valued at market) held in the state's name by independent custodial banks or segregated in the Federal Reserve Bank in the state's account and $1.853 million was (category 3) uninsured and uncollateralized.

   The carrying value of cash and investments includes $439.618 million of funds reported as component units.

   Cash on deposit with fiscal agent includes $2.189 million of cash held in a custody account by State Street Bank under a contractual arrangement for master custody services. Monies with the custodial agent are not classified by credit risk, as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

7. Investments - Investments are also required to be categorized to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the state or its agent in the State's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent but not in the State's name. Investments are categorized below for all funds (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS

	Category				
	1	2	3	Carrying Amount	Fair Value 6/30/03
Cash Equivalents and Short-Term Investments:					
Commercial Paper	$ 1,823,103			$ 1,823,103	$ 1,823,132
Repurchase Agreements	74,000			74,000	74,000
Government Securities	2,244,092			2,244,092	2,244,169
Total Cash Equivalents and Short-Term Investments	4,141,195			4,141,195	4,141,301
Long-Term Investments:					
Government Securities - not on loan	10,175,369			10,175,369	10,175,369
Corporate Bonds	2,336,503			2,336,503	2,336,503
Corporate Stocks	8,613,755			8,613,755	8,613,755
Total Long-Term Investments	21,125,627			21,125,627	21,125,627
Total	$ 25,266,822			25,266,822	25,266,928
Investments not subject to categorization:					
Unsettled Investment Acquisitions:					
Government Bonds				339,360	339,360
Corporate Bonds				18,037	18,037
Corporate Stocks				25,649	25,649
Mutual Funds				113,422	113,422
Real Estate				372,308	372,308
Unemployment Compensation Pool				595,257	595,257
Total Investments and Cash Equivalents				$ 26,730,855	$ 26,730,961

8. The various component units are generally governed by the same basic State statutes as the State's investments described above.

   a. University of Tennessee

   At year end, the carrying amount of deposits for the University of Tennessee was $14.481 million and the bank balance was $6.479 million. Of this balance, the entire amount was (category 1) insured or collateralized with securities held by the University or by its agent in the University's name. During the year ended June 30, 2003, the University had uncollateralized deposits on several days of amounts up to $2.259 million.

   The investments for the University of Tennessee are categorized below (expressed in thousands):

	Category				Market
	1	2	3	Carrying Amount	Value 6/30/03
Cash Equivalents:					
Commercial Paper	$ 104,911			$ 104,911	$ 104,911
Repurchase Agreements		$ 3,400		3,400	3,400
Government Securities	251,581			251,581	251,581
Total Cash Equivalents	356,492	3,400		359,892	359,892
Investments:					
Government Securities	9,015	37,849		46,864	46,864
Corporate Bonds	2,664	24,247		26,911	26,911
Corporate Stocks	84,427	6,922		91,349	91,349
Assets with Trustees			$ 4,408	4,408	4,408
Collateralized Mortgage Securities	1,207			1,207	1,207
Other	23			23	23
Total Investments	97,336	69,018	4,408	170,762	170,762
Total	$ 453,828	$ 72,418	$ 4,408	530,654	530,654
Investments not subject to categorization:					
Limited Partnership-Venture Capital Funds				24,582	24,582
Real Estate Equity				25,614	25,614
Mutual Funds				144,092	144,092
Real Estate Gifts				4,827	4,827
Cash Equivalents - assets with bank as custodian				35,546	35,546
Investments in Hedge Funds				54,089	54,089
Total Investments and Cash Equivalents				$ 819,404	$ 819,404

b. Tennessee Board of Regents

At year end, the carrying amount of deposits for the Tennessee Board of Regents was $65.349 million and the bank balance was $82.533 million. Of the bank balance, $81.960 million was (category 1) covered by insurance or collateral (valued at market) held in the schools' name by independent custodial banks or segregated in the Federal Reserve Bank in the schools' name, $170 thousand was (category 2) collateralized with securities held by the pledging financial institution's trust department or agent in the institution's name, and $403 thousand was (category 3) uninsured and uncollateralized. In addition, at June 30, 2003, the schools had $314.315 million being held by the State in the Local Government Investment Pool.

The investments for the Tennessee Board of Regents are categorized below (expressed in thousands):

	Category				Fair
	1	2	3	Carrying Amount	Value 6/30/03
Investments:					
Commercial Paper	$ 6,991			$ 6,991	$ 6,991
Government Securities	36,609	$ 3,609	$ 1,789	42,007	42,007
Corporate Bonds	1,646	9,806	1,806	13,258	13,258
Corporate Stocks	16,237	13,358	2,643	32,238	32,238
Other	113	160	3,445	3,718	3,718
Total Long-Term Investments	$ 61,596	$ 26,933	$ 9,683	98,212	98,212
Investments not subject to categorization:					
Mutual Funds				15,534	15,534
Other				261	261
Total Investments and Cash Equivalents				$ 114,007	$ 114,007

c. Tennessee Housing Development Agency

At June 30, 2003, the carrying amount of THDA's deposits was $12.672 million, and the bank balance was $13.234 million. Of the bank balance, $1.272 million was insured and $11.962 million was collateralized with securities held by the pledging financial institution's agent, but not in the agency's name. In addition, at June 30, 2003, THDA had $5.140 million being held by the State in the State Pooled Investment Fund.

On several days during the year, the amounts collateralized with securities held by the pledging financial institution's agent but not in the agency's name significantly exceeded the amount at year-end. The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits; however, collateral was pledged at 100%.

The investments for the Tennessee Housing Development Agency are categorized below (expressed in thousands):

	Category				
	1	2	3	Carrying Amount	Fair Value 6/30/03
Cash Equivalents and Short-Term Investments:					
Repurchase Agreements	$ 251,000			$ 251,000	$ 251,000
Government Securities	51,095			51,095	51,095
Total Cash Equivalents and Short-Term Investments	302,095			302,095	302,095
Long-Term Investments					
Repurchase Agreements	38,000			38,000	38,000
Government Securities	410,538			410,538	410,538
Total Long-Term Investments	448,538			448,538	448,538
Total	$ 750,633			750,633	750,633
Investments not subject to categorization:					
Mutual Fund				46,476	46,476
Unsettled Investment Acquisition Government Securities				4,041	4,041
Total Investments and Cash Equivalents				$ 801,150	$ 801,150

B. Accounts and notes receivable

Receivables at June 30, 2003, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Government	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental Activities:							
General	$ 247,062	$ 605,925	$ 707,518	$ 4,204	$ 1,564,709	$ (118,975)	$ 1,445,734
Education	4,491	410,278	76,689		491,458	(39,036)	452,422
Highway	109	64,703	83,669		148,481	(86)	148,395
Nonmajor governmental	103	10,256	2,885	1,515	14,759	(465)	14,294
Internal Service	4,536				4,536		4,536
Total—governmental activities	$ 256,301	$ 1,091,162	$ 870,761	$ 5,719	$ 2,223,943	$ (158,562)	$ 2,065,381
Amounts not expected to be collected within one year							$ 78,818
Business-type Activities:							
Employment Security	$ 34,337	$ 98,171	$ 5,616	$ 4,771	$ 142,895	$ (27,189)	$ 115,706
Sewer Treatment Loan				26	26		26
Nonmajor proprietary	2,918			2	2,920		2,920
Total—business-type activities	$ 37,255	$ 98,171	$ 5,616	$ 4,799	$ 145,841	$ (27,189)	$ 118,652

C. Capital assets

Capital asset activity for the year ended June 30, 2003, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 684,702	$ 154,205	$ (872)	$ 838,035
Infrastructure	13,734,930	1,771,432	(42,991)	15,463,371
Construction in progress	2,365,316	565,537	(1,798,479)	1,132,374
Total capital assets, not being depreciated	16,784,948	2,491,174	(1,842,342)	17,433,780
Capital assets, being depreciated:				
Structures and improvements	1,637,956	31,043	(2,334)	1,666,665
Machinery and equipment	478,208	47,191	(24,957)	500,442
Total capital assets being depreciated	2,116,164	78,234	(27,291)	2,167,107
Less accumulated depreciation for:				
Structures and improvements	(574,780)	(40,506)	1,208	(614,078)
Machinery and equipment	(313,076)	(43,564)	23,580	(333,060)
Total accumulated depreciation	(887,856)	(84,070)	24,788	(947,138)
Total capital assets, being depreciated, net	1,228,308	(5,836)	(2,503)	1,219,969
Governmental activities capital assets, net	$ 18,013,256	$ 2,485,338	$(1,844,845)	$ 18,653,749

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental activities:	
General Government	$ 1,963
Education	2,044
Health and Social Services	6,684
Law, Justice and Public Safety	17,944
Recreation and Resource Development	10,185
Regulation of Business and Professions	132
Transportation	12,741
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	32,377
Total depreciation expense – governmental activities	$ 84,070

Highway Construction Commitments — At June 30, 2003, the Department of Transportation had contractual commitments of approximately $674.4 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($593.9 million) and general obligation bond proceeds ($80.5 million).

Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2003, for the discretely presented component units are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 123,560	$ 10,823	$ (4,436)	$ 129,947
Construction in progress	198,090	123,669	(97,846)	223,913
Total capital assets, not being depreciated	321,650	134,492	(102,282)	353,860
Capital assets, being depreciated:				
Infrastructure	176,818	20,608	(31)	197,395
Structures and improvements	2,257,805	174,938	(14,713)	2,418,030
Machinery and equipment	645,295	77,764	(40,729)	682,330
Total capital assets being depreciated	3,079,918	273,310	(55,473)	3,297,755
Less accumulated depreciation for:				
Infrastructure	(87,087)	(14,826)	6,552	(95,361)
Structures and improvements	(933,151)	(43,860)	5,248	(971,763)
Machinery and equipment	(384,345)	(63,196)	38,513	(409,028)
Total accumulated depreciation	(1,404,583)	(121,882)	50,313	(1,476,152)
Total capital assets, being depreciated, net	1,675,335	151,428	(5,160)	1,821,603
Total capital assets, net	$ 1,996,985	$ 285,920	$ (107,442)	$ 2,175,463

D. Interfund balances

1. Interfund balances at June 30, 2003, consisted of the following (expressed in thousands):

		DUE FROM							
		General Fund	Education	Highway	Employment Security	Nonmajor Governmental	Nonmajor Enterprise Funds	Internal Service Funds	Total
	General Fund		$ 232,167	$ 1	$ 12,092		$ 2,535	$ 186	$ 246,981
D	Education	$ 2,926							2,926
U	Highway	8							8
E	Employment Security	431							431
T	Nonmajor Governmental	2			9				11
O	Internal Service Funds	179						87	266
	Fiduciary Funds	9,611	316	1,233		$ 321	4	312	11,797
	Total	$ 13,157	$ 232,483	$ 1,234	$ 12,101	$ 321	$ 2,539	$ 585	$ 262,420

Of the $232,167 due to the General Fund from the Education Fund, $232,023 resulted from a time lag between the dates that payments to local education agencies occur and taxes are received in the Education Fund. The $12,092 due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2003, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

	Tennessee Housing Development Agency	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
PAYABLE TO PRIMARY GOVERNMENT:					
General Fund	$ 40	$ 67	$ 276	$ 2,039	$ 2,422
Education Fund		686	277		963
Employment Security				14	14
Nonmajor Governmental Funds		79	684		763
Nonmajor Enterprise Funds			4	19	23
Internal Service Funds		558	39	31	628
Fiduciary Funds	61	2,216	1,467	125	3,869
Total	$ 101	$ 3,606	$ 2,747	$ 2,228	$ 8,682

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2003, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

	General Fund	Education Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Total
RECEIVABLE TO COMPONENT UNITS:					
Tennessee Board of Regents		$ 46	$ 1,139		$ 1,185
University of Tennessee		19	5,392		5,411
Nonmajor Component Units	$ 9,380			$ 2	9,382
Total	$ 9,380	$ 65	$ 6,531	$ 2	$ 15,978

E. Loans from other funds

The Office for Information Resources, an Internal Service Fund, has loans of $4.266 million to various general fund agencies for computer systems development. These loans are considered long term and are not expected to be repaid within one year.

F. Transfers

Transfers between the various primary government funds for fiscal year ending June 30, 2003 are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Nonmajor Governmental Funds	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Total
General		$ 511,220		$ 55,141	$ 4,994	$ 13,887	$ 9,306	$ 594,548
Education				1,002			14	1,016
Highway	$ 31,142							31,142
Nonmajor Governmental Funds	108		$ 77,000	4,130			308	81,546
Totals	$ 31,250	$ 511,220	$ 77,000	$ 60,273	$ 4,994	$ 13,887	$ 9,628	$ 708,252

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ending June 30, 2003, the general fund transferred $594.5 million to other funds in accordance with statute or budgetary authorizations for the following purposes: $496.0 million to subsidize the activities of the education fund, $45.8 million for capital outlay expenditures, $46.9 million to provide appropriations to finance various programs in other funds, $5.2 million to provide for debt service payments that were due, and $600 thousand for payments for interfund services used.

The highway fund received a transfer from the debt service fund for $77.0 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The highway fund transferred $30.0 million into the general fund for the purpose of funding the requirements of state government operations. The transfer is considered non-routine and inconsistent with the activities of the highway fund. This transfer was made in accordance with budgetary authority granted by the Legislature.

G. Lease obligations

Operating Lease Obligations — The State has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The State has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) Ended June 30	Noncancelable Operating Leases
2004	$ 14,523
2005	10,895
2006	8,595
2007	6,202
2008	4,292
2009-2013	15,401
2014	10
Total Minimum Payments Required	$ 59,918

Expenditures for rent under leases for the years ended June 30, 2003 and 2002, amounted to $32.1 million and $31.9 million, respectively.

Capital Lease Obligations – The State leases two buildings for vocational training centers, one in Carter County and the other in Dyersburg. The leases provide an option to purchase the buildings within the lease periods. These capital lease obligations are payable from resources of the General Fund. The effective interest rates are 5.1% and 4.78%. In addition, Records Management (an internal service fund) leased an imaging system with an option to purchase within the five-year lease period. The effective interest rate is 2.65%. These capital lease obligations are reported in the governmental activities column of the Statement of Net Assets. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 68
Buildings	1,215	
Less: Accumulated Depreciation	125	1,090
Equipment	140	
Less: Accumulated Depreciation	40	100
		$ 1,258

At June 30, 2003, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2004	$ 182
2005	182
2006	155
2007	152
2008	152
2009	71
Total	894
Less - Interest	106
Present value of net minimum lease payments	$ 788

H. Lease receivables

Operating Lease Receivables — The State, as the lessor, entered into an operating lease with Tennessee Golf, LLC for four golf courses built by the State to be operated by the lessee. The 21-year lease agreement, dated January 20, 1995, that required lease payments begin in January 2001 was amended on February 11, 2002, to extend the lease period to 30 years. In accordance with GASB Statement 13, this lease qualifies as a lease with scheduled rent increases. The golf courses are recorded as a governmental activities capital asset.

The following is a schedule by years of minimum future rentals on noncancelable leases as of June 30, 2003 (expressed in thousands):

Year ending June 30	
2004	$ 199
2005	283
2006	1,272
2007	2,250
2008	2,250
2009-2013	11,390
2014-2018	12,647
2019-2023	12,647
2024-2028	12,647
2029-2031	6,324
Total minimum future rentals	$ 61,909

Capital Lease Receivable — The State, as the lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The State is subsidizing a part of the cost of this building.

The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The State is subsidizing a part of the cost of this building.

Minimum future lease payments to be received as of June 30, 2003 (expressed in thousands):

Year Ended June 30	Total
2004	$ 817
2005	562
2006	560
2007	461
2008	457
2009-2013	2,296
2014-2018	1,522
2019-2021	604
Total minimum future lease payments	$ 7,279

Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 7,279
Plus: deferred charges	760
Net investment in direct financing lease	$ 8,039

I. Long term debt

1. General Obligation Bonds – Bonds Payable at June 30, 2003, are shown below (expressed in thousands):

	Amount
Business-type Activities:	
General obligation bonds, 5.0%, due in generally decreasing amounts of principal and interest ranging from $2.01 million in 2004 to $719 thousand in 2006	$ 4,100
General obligation refunding bonds, 1996 Series C, 4.6% to 5.0%, principal and interest due in amounts ranging from $1.522 million in 2004 to $986 thousand in 2010	7,103
	11,203
Less: Unamortized bond refunding costs	(133)
Total Business-type Activities	$ 11,070
Governmental Activities:	
General obligation bonds, 4.0% to 7.4%, due in generally decreasing amounts of principal and interest from $95.79 million in 2004 to $3.995 million in 2029	$ 749,613
General obligation refunding bonds, 1996 Series B, 4.6% to 6%, principal and interest due in amounts ranging from $21.279 million in 2004 to $3.911 million in 2011	77,850
General obligation refunding bonds, 1999 Series A, 3.5% to 5%, principal and interest due in amounts ranging from $23.101 million in 2004 to $5.398 million in 2015	222,604
Total General Long-Term Debt	1,050,067
Less: Unamortized bond refunding costs	(2,536)
Total Governmental Activities	$ 1,047,531

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2003, is shown below (expressed in thousands).

	Commercial Paper
General obligation commercial paper, interest rates ranging from .9% to 1.6% for tax exempt and 1.27% to 1.85% for taxable, varying maturities	$ 201,800

The full faith and credit of the State, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above.

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of $100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed $250 million.

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2005. At June 30, 2003, $201.8 million of commercial paper was outstanding ($184.5 million tax exempt and $17.3 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2003, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2004	$ 90,274	$ 53,428	$ 143,702
2005	89,909	48,754	138,663
2006	88,564	43,963	132,527
2007	77,719	39,414	117,133
2008	72,074	35,604	107,678
2009-2013	336,738	126,978	463,716
2014-2018	222,944	52,329	275,273
2019-2023	63,968	13,258	77,226
2024-2028	15,360	4,620	19,980
2029	3,720	275	3,995
	$1,061,270	$ 418,623	$ 1,479,893

The above principal for bonds does not reflect a $2.669 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2003, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 2002	Authorized	Canceled	Unissued June 30, 2003
Highway	$ 641,500	$ 151,000	$ 77,000	$ 715,500
Higher Education	19,695		3,652	16,043
Environment and Conservation	18,059		(18)	18,077
General Government	388,296	186,768	16,489	558,575
Local Development Authority	23,300		4,000	19,300
Other	480		439	41
Totals	$ 1,091,330	$ 337,768	$ 101,562	$ 1,327,536

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2003, follows (expressed in thousands).

Changes In Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Commercial Paper Payable:					
General Obligation Debt	$ 1,248,347	$ 99,000	$ (95,479)	$ 1,251,868	$ 86,835
Less Deferred Amount on Refundings	(2,766)		230	(2,536)	
Total Bonds and Commercial Paper Payable	1,245,581	99,000	(95,249)	1,249,332	86,835
Capital Leases	483	388	(83)	788	148
Compensated Absences	165,755	109,325	(99,071)	176,009	85,532
Bond interest accrual	7,970	2,699		10,669	10,669
Claims and Judgments	201,322	12,086	(14,640)	198,768	29,596
Governmental Activities Long-Term Liabilities	$ 1,621,111	$ 223,498	$ (209,043)	$ 1,635,566	$ 212,780
BUSINESS-TYPE ACTIVITIES					
Bonds Payable	$ 14,077		$ (2,874)	$ 11,203	$ 2,990
Less Deferred Amount on Refundings	(153)		20	(133)	
Total Bonds Payable	13,924		(2,854)	11,070	2,990
Compensated Absences	76	$ 38	(55)	59	28
Business-Type Activities Long-Term Liabilities	$ 14,000	$ 38	$ (2,909)	$ 11,129	$ 3,018

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the General Fund and Special Revenue Funds liquidate compensated absences liabilities. Claims and judgments are obligations of Underground Storage Tanks and Highway, special revenue funds and the General Fund.

J. Payables

Payables as of June 30, 2003, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total Payables
Governmental Activities:					
General	$ 756,713	$ 60,888		$ 73,833	$ 891,434
Education	101,118	2,864		2,103	106,085
Highway	75,904	6,865		6	82,775
Other governmental	32,000	1,455	$ 111	422	33,988
Internal Service	70,293	1,735			72,028
Total— governmental activities	$ 1,036,028	$ 73,807	$ 111	$ 76,364	$ 1,186,310
Business-Type Activities:					
Employment Security	$ 161			$ 17,869	$ 18,030
Sewer Treatment Loan				5	5
Other proprietary	39,777	$ 22	$ 180	8	39,987
Total—business-type activities	$ 39,938	$ 22	$ 180	$ 17,882	$ 58,022

K. Component units – condensed financial statements

Below is the condensed financial statements of the component units for the State of Tennessee as of June 30, 2003 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	Housing Development Agency	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets					
Cash, Investments, and Other Assets	$ 2,078,643	$ 444,164	$ 870,944	$ 172,600	$ 3,566,351
Due from Primary Government		1,185	5,411	9,382	15,978
Due from Other Component Units		20	4,084	458,078	462,182
Restricted Assets	221,761	178,613	260,412	24,137	684,923
Capital Assets, Net		1,221,917	943,877	9,669	2,175,463
Total Assets	2,300,404	1,845,899	2,084,728	673,866	6,904,897
Liabilities					
Accounts Payable and Other Current Liabilities	308,163	259,456	215,257	95,914	878,790
Due to Primary Government	101	3,606	2,747	2,228	8,682
Due to Other Component Units		236,795	221,283	4,104	462,182
Long-Term Liabilities	1,586,424	57,809	84,054	558,177	2,286,464
Total Liabilities	1,894,688	557,666	523,341	660,423	3,636,118
Net Assets					
Invested in Capital Assets, Net of Related Debt		963,161	730,451	5,142	1,698,754
Restricted	396,203	72,794	614,835	1,725	1,085,557
Unrestricted	9,513	252,278	216,101	6,576	484,468
Total Net Assets	$ 405,716	$ 1,288,233	$ 1,561,387	$ 13,443	$ 3,268,779

Condensed Statement of Activities
Component Units

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Component Units:				
Housing Development Agency	$ 266,713	$ 115,769	$ 186,450	
Board of Regents	1,493,978	461,035	339,821	$ 82,187
University of Tennessee	1,334,323	386,076	503,929	79,749
Nonmajor Component Units	169,344	56,062	56,933	
Total	$ 3,264,358	$ 1,018,942	$ 1,087,133	$ 161,936

General Revenues:
Payments from Primary Government
Unrestricted Grants and Contributions
Unrestricted Investment Earnings
Miscellaneous
Total General Revenues
Contributions to Permanent Funds
Change in Net Assets
Net Assets – July 1
Net Assets – June 30

Significant transactions between the major component units–Tennessee Board of Regents (TBR) and University of Tennessee (UT)–and the primary government consist of the following:

State appropriations from the Education Fund in the amount of $630.5 million were made to the TBR and $423.8 million to the UT.

Capital expenditures in the amount of $62.621 million were made for the TBR and $32.933 million to the UT in the form of capital assets acquired or constructed.

The TBR paid the primary government $11.340 million to manage construction projects that were not a part of the capital appropriations.

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2003, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 10,007	$ 224,773
University of Tennessee	13,565	205,828
Total	$ 23,572	$ 430,601

Net (Expense) Revenue and Changes in Net Assets				
Housing Development Agency	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 35,506				$ 35,506
	$ (610,935)			(610,935)
		$ (364,569)		(364,569)
			$ (56,349)	(56,349)
35,506	(610,935)	(364,569)	(56,349)	(996,347)
	630,499	423,816	54,835	1,109,150
	19,390	11,816	28	31,234
211	8,171	12,759	136	21,277
	5,547	(3,746)		1,801
211	663,607	444,645	54,999	1,163,462
	165	14,116		14,281
35,717	52,837	94,192	(1,350)	181,396
369,999	1,235,396	1,467,195	14,793	3,087,383
$ 405,716	$ 1,288,233	$ 1,561,387	$ 13,443	$ 3,268,779

L. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2003, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.2% to 8.125%, due in amounts of principal and interest ranging from $339.425 million in 2004 to $4.313 million in 2034	$ 1,776,991
Less: Unamortized bond refunding costs	(7,485)
Net Bonds Payable	$ 1,769,506
Homeownership Program Convertible Drawdown Notes, at 1.054% interest rate due December 8, 2005	$ 51,070

The revenue bonds and notes listed above are not obligations of the State. They are secured by pledge from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2003, included the following issues:

July 2002 – Program bonds of $85 million
February 2003 – Program bonds of $50 million

On July 31, 2002, the agency issued $85 million in Homeownership Program Bonds, Issue 2002 A & B and used $56.6 million to redeem notes.

On February 27, 2003, the agency issued $50 million in Homeownership Program Bonds, Issue 2003–1 A and B. On April 10, 2003, the agency used $25.66 million of these bonds to redeem notes.

Current Refundings

During the year ended June 30, 2003, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $3.120 million and in the Homeownership Program in the amount of $42.131 million. The respective carrying values of these bonds were $3.086 million and $41.811 million. This resulted in a loss to the Mortgage Finance Program of $34 thousand and the Homeownership Program of $320 thousand.

On July 1, 2002, the agency used $57.46 million of notes to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program ($47.565 million early redemption and $9.895 million current maturities). The carrying amount of those bonds was $57.020 million. The refunding resulted in a difference of $440 thousand between the reacquisition price and the net carrying amount of the old debt. Due to immateriality, this difference is charged to operations in the current year. On July 31, 2002, the agency issued $85 million in Homeownership Program Bonds, Issue 2002-2 A and B. On September 12, 2002, the agency used $56.6 million of these bonds to partially refund the convertible drawdown notes, 2001CN-1, which was used July 1, 2002 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by $13.918 million over the next 30.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $210 thousand.

On December 12, 2002, the agency drew down $11.385 million of notes (2002CN-1) to redeem notes from Series 2001CN-1.

On January 2, 2003, the agency drew down $65.110 million of notes to refund $65.110 million of bonds previously issued in the Mortgage Finance Program and the Homeownership Program ($55.725 million early redemption and $9.385 million current maturities). The carrying amount of these bonds was $64.626 million. The refunding resulted in a difference of $483 thousand between the reacquisition price and the net carrying amount of the old debt. Due to immateriality, this difference is charged to operations in the current year. On February 27, 2003, the agency issued $50 million in Homeownership Program Bonds, Issue 2003-1 A and B. On April 10, 2003, the agency used $25.66 million of these bonds to partially refund Series 2002CN-1 notes. The refunding decreased the agency's debt service by $14 million over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $12.308 million.

On March 1, 2003, the agency drew down notes (2002CN-1) to refund $235 thousand of bonds previously issued in the Homeownership Program. The carrying amount of these bonds was $233.5 thousand. The refunding resulted in a difference of $1,500 between the reacquisition price and the net carrying amount of the old debt. Due to immateriality, this difference is charged to operations in the current year.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2003, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2004	$ 241,029	$ 98,396	$ 339,425
2005	53,675	83,270	136,945
2006	59,207	82,648	141,855
2007	61,621	80,457	142,078
2008	63,315	78,023	141,338
2009-2013	249,781	327,058	576,839
2014-2018	252,610	257,695	510,305
2019-2023	300,395	179,367	479,762
2024-2028	284,300	96,537	380,837
2029-2033	186,425	24,231	210,656
2034	4,205	108	4,313
	$ 1,756,563	$ 1,307,790	$ 3,064,353

The above principal for revenue bonds is less than that presented on the accompanying financial statements by $12.943 million. Of this amount, $20.428 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2004-2017). In addition, $7.485 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65 million. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount of $200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of $450 million. The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002, the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2003 (expressed in thousands).

Beginning Balance	Additions	Reductions	Ending Balance
$67,909	$76,730	$93,569	$51,070

The $51.070 million of notes outstanding at year end are Series 2002CN-1, which mature on December 8, 2005.

M. Nonmajor component units – long term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2003, are shown below (expressed in thousands):

Revenue bonds, 1.95% to 5.75%, due in generally decreasing amounts of principal and interest from $5.551 million in 2004 to $16 thousand in 2022	$ 45,447
Less: Unamortized bond refunding costs	(1,803)
Net Bonds Payable	$ 43,644
Revenue bond anticipation notes, $48.95 million at 2% due June 2004	$ 48,950

The revenue bonds and revenue bond anticipation notes listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TLDA.

On January 22, 2003, the authority issued 2003 Refunding Series A bonds in the amount of $8.295 million at a premium of $58 thousand. The bond proceeds were used to currently refund $8.381 million of bonds outstanding in the 1987 and 1993 series on March 1, 2003 at a call premium of $134 thousand. The net carrying amount of the bonds refunded is $8.095 million. Also, loan prepayments with a carrying amount of $2.683 million were used to call $2.714 million of bonds outstanding in the 1987 and 1993 series on March 1, 2003 at a call premium of $53 thousand. The refunding resulted in a difference between the reacquisition price and the net carrying amount of $419 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015. The loan prepayments resulted in a difference between the reacquisition price and the net carrying amount of $84 thousand. This difference is being charged to operations in the current year. The authority completed the refunding to reduce its total debt service payments over the next 12 years by $1.12 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $46 thousand.

Prior Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds of the Community Provider Programs by placing the proceeds of general obligation notes in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2003, $8.305 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2003, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2004	$ 3,328	$ 2,223	$ 5,551
2005	3,533	2,053	5,586
2006	3,398	1,897	5,295
2007	3,118	1,752	4,870
2008	3,278	1,615	4,893
2009-2013	16,913	5,589	22,502
2014-2018	10,770	1,741	12,511
2019-2022	1,109	112	1,221
	$ 45,447	$ 16,982	$ 62,429

The above principal for revenue bonds does not reflect a $1.803 million deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2003, are shown below (expressed in thousands):

Revenue bonds, various Series, 3% to 7.75%, due in decreasing amounts of principal and interest from $45.634 million in 2004 to $5.615 million in 2032	$ 452,092
Less: Unamortized bond refunding costs	(2,283)
Net Bonds Payable	$ 449,809
Commercial paper, interest rates ranging from .85% to 1.85%, varying maturities	$ 46,747

The revenue bonds and commercial paper listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TSSBA.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2003, $72.825 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2003, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2004	$ 22,105	$ 23,529	$ 45,634
2005	19,760	22,545	42,305
2006	17,811	21,668	39,479
2007	18,048	20,905	38,953
2008	17,910	20,118	38,028
2009-2013	101,421	81,114	182,535
2014-2018	88,580	55,368	143,948
2019-2023	69,344	34,926	104,270
2024-2028	60,880	17,155	78,035
2029-2032	27,228	3,375	30,603
	$443,087	$300,703	$ 743,790

The above principal for revenue bonds is less than that presented on the accompanying financial statements by $6.722 million. Of this amount, $9.005 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2004-2010). In addition, $2.283 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed $150 million. At June 30, 2003, $39.447 million of tax-exempt and $7.3 million of taxable commercial paper was outstanding.

The commercial paper is a special obligation of the Authority. The commercial paper dealer is J. P. Morgan. Commercial paper principal and interest may be paid from: (i) the proceeds of draws on the Liquidity Facility, (ii) Available Revenues, (iii) the moneys and securities (if any) on deposit in the commercial paper and reimbursement account and in the Debt Service Fund, (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (v) the proceeds of bonds, notes or other evidences of indebtedness to the extent set aside to make such payments. The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary depending on the market. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under an Advance Agreement, is *Westdeutsche Landesbank Girozentrale*, New York branch. The total available commitment is $152.25 million. The obligation of *Westdeutsche Landesbank Girozentrale* is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

N. Component units – changes in long term obligations

A summary of changes in long term obligations for the year ended June 30, 2003, follows (expressed in thousands).

Changes In Long Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee Loans Payable	$ 202,374	$ 29,597	$ (16,237)	$ 215,734	$ 13,851
Tennessee Board of Regents Loans and Notes Payable	218,196	38,956	(19,091)	238,061	9,747
Tennessee Housing Development Agency Bonds Payable	1,828,621	139,095	(190,725)	1,776,991	251,690
Less Deferred Amount on Refunding	(8,227)		742	(7,485)	
Tennessee Housing Development Agency Notes Payable	67,985	76,730	(93,645)	51,070	
Less Deferred Amount On Refunding	(76)		76		
Nonmajor component units Bonds, Notes, and Loans Payable	640,311	100,674	(105,511)	635,474	80,584
Less Deferred Amount on Refunding	(3,909)	(408)	231	(4,086)	
Total Revenue Bonds, Notes and Loans Payable	$ 2,945,275	$ 384,644	$ (424,160)	$ 2,905,759	$ 355,872
University of Tennessee Compensated Absences	59,190	40,729	(36,161)	63,758	36,161
University of Tennessee Due to Grantors, Deferred Revenue, and Annuities Payable	58,586	3,335	(1,519)	60,402	
Tennessee Board of Regents Compensated Absences	41,281	21,849	(18,884)	44,246	9,853
Tennessee Board of Regents Due to Grantors and Deferred Revenue	19,407	2,417	(1,949)	19,875	
Tennessee Housing Development Agency Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	18,709	7,938	(9,429)	17,218	
Tennessee Housing Development Agency Compensated Absences	523	453	(349)	627	307
Nonmajor component units Compensated absences	1,520	1,139	(1,127)	1,532	874
Nonmajor component units Capital Leases	150	13	(34)	129	47
Nonmajor component units Deferred Revenue	7,033	171	(571)	6,633	
Component units Long-Term Liabilities	$ 3,151,674	$ 462,688	$ (494,183)	$ 3,120,179	$ 403,114

The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the State. The nonmajor component units bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents loans payable are based.

O. **Endowments – component units**

If a donor has not provided specific instructions to the University of Tennessee and the Tennessee Board of Regents institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2003, net appreciation of $93.398 million is available to be spent, of which $88.762 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2003, net appreciation of $6.311 million is available to be spent, of which $6.036 million is restricted to specific purposes.

NOTE 6 – **Other information**

A. **Risk management**

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2003, included 122 local education agencies and two education cooperatives, with 42,020 teachers and support personnel, and 3,572 retirees enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State retains an immaterial risk of loss by this fund.

   The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2003, the Local Education Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 10% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2003	2002
Unpaid Claims at Beginning of Year	$ 23,943	$ 23,284
Incurred Claims:		
Provision for insured events of the current year	228,230	199,521
Increase (decrease) in provision for insured events of prior years	(4,939)	(6,362)
Total Incurred Claims Expenses	223,291	193,159
Payments:		
Claims attributable to insured events of the current year	205,407	175,578
Claims attributable to insured events of prior years	19,004	16,922
Total Payments	224,411	192,500
Total Unpaid Claims at End of the Year	$ 22,823	$ 23,943

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2003, included 41 counties, 94 municipalities and 220 quasi-governmental organizations, with 16,179 employees and 439 retirees maintaining coverage through one of three options: preferred provider plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four

months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2003, the Local Government Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 11% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2003	2002
Unpaid Claims at Beginning of Year	$ 11,807	$ 8,302
Incurred Claims:		
Provision for insured events of the current year	99,857	98,389
Increase (decrease) in provision for insured events of prior years	(2,177)	(1,102)
Total Incurred Claims Expenses	97,680	97,287
Payments:		
Claims attributable to insured events of the current year	88,873	86,582
Claims attributable to insured events of prior years	9,630	7,200
Total Payments	98,503	93,782
Total Unpaid Claims at End of the Year	$ 10,984	$ 11,807

3. Risk Management - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Claims Award Fund (CAF). CAF services claims for risk of loss to which the State is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. All agencies and authorities of the State participate in CAF, except for the Dairy Promotion Board and Certified Cotton Growers' Organization (a component unit). CAF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole. An actuarial valuation is performed as of each fiscal year end to determine the fund liability and premium allocation.

CAF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2003, the amount of these liabilities was $87.3 million, which are discounted at 3.0%. Changes in the balances of claims liabilities during fiscal years 2002 and 2003 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001-2002	$ 69,839	$ 39,187	$ (28,116)	$ 80,910
2002-2003	$ 80,910	$ 35,481	$ (29,054)	$ 87,337

At June 30, 2003, CAF held $72.1 million in cash and cash equivalents designated for payment of these claims.

The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The insurance policy deductibles vary from $1 million to $5 million by type of risk coverage. A designation of $3.271 million for incurred losses has been established in the General Fund.

In fiscal year 2000, the cost to repair tornado damage at Austin Peay State University exceeded insurance coverage by $6.196 million.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2003, included 66,028 employees and 6,324 retirees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

   The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2003, the State Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 10% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

   As discussed above, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2003	2002
Unpaid Claims at Beginning of Year	$ 45,537	$ 39,641
Incurred Claims:		
Provision for insured events of the current year	428,064	379,474
Increase (decrease) in provision for insured events of prior years	(7,166)	(7,233)
Total Incurred Claims Expenses	420,898	372,241
Payments:		
Claims attributable to insured events of the current year	385,258	333,937
Claims attributable to insured events of prior years	38,371	32,408
Total Payments	423,629	366,345
Total Unpaid Claims at End of the Year	$ 42,806	$ 45,537

5. Medicare Supplement Insurance – In 1988, the State of Tennessee adopted legislation authorizing the provision of Medicare Supplement coverage for qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured and a third plan option offered to participants.

In accordance with Tennessee Code Annotated 8-27-701, et. seq, the State Insurance Committee established a Medicare Supplement Insurance Fund, a public entity risk pool, on January 1, 2001. Fund members at June 30, 2003, include 22,094 retirees and dependents who selected one of three plan offerings; Plan One (NAIC Plan D), Plan Two (NAIC Plan H) and Plan Three (a PPO maintenance of benefit option).

The Medicare Supplement Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient for fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, provide for the filing of claims for services received, and report changes in eligibility of themselves and their dependents.

The Medicare Supplement Insurance Fund establishes claims liabilities for the self-insured coverage based on estimates of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2003, reserve requirements were established of 16%, based upon claim payments for the prior 12 months. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Medicare Supplement Insurance Fund considers investment income in determining if a premium deficiency exists.

The Medicare Supplement Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Medicare Supplement Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2003	2002
Unpaid Claims at Beginning of Year	$ 4,867	$ 1,027
Incurred Claims:		
Provision for insured events of the current year	34,580	30,417
Increase (decrease) in provision for insured events of prior years	(169)	3,103
Total Incurred Claims Expenses	34,411	33,520
Payments:		
Claims attributable to insured events of the current year	29,047	25,550
Claims attributable to insured events of prior years	4,698	4,130
Total Payments	33,745	29,680
Total Unpaid Claims at End of the Year	$ 5,533	$ 4,867

B. Related organizations

The State's officials are also responsible for appointing the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making appointments. The State appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Goodwyn Institute Commission, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Competitive Export Corporation, Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and Sports Festival, Inc.

C. Jointly governed organizations

The State in conjunction with 33 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid $54,926 in fiscal year 2003 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid $14,000 in fiscal year 2003 for membership dues.

The Compact for Education was entered into with 49 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid $66,100 in fiscal year 2003 for membership dues.

The Interstate Mining Compact has 17 member states, including Tennessee. Tennessee paid $15,528 in fiscal year 2003 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 in fiscal year 2003 for membership dues.

The Southeast Interstate Low Level Radioactive Waste Compact has 7 member states, including Tennessee.

The Chickasaw Trail Economic Development Compact has two member states in conjunction with one county in each State.

D. Joint ventures

The State is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee Tombigbee Waterway is December 31. Financial statements for the Tennessee Tombigbee Waterway may be obtained at: P. O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	2002	2001
Current Assets	$ 271	$ 268
Capital Assets	33	33
Total Assets	304	301
Invested in General Fixed Assets	33	33
Fund Balance	271	268
Total Liabilities and Fund Balance	304	301
Revenues	293	315
Expenditures	290	325
Excess of Revenues over (under) Expenditures	3	(10)
Beginning Fund Balance	268	278
Ending Fund Balance	$ 271	$ 268

E. Post employment health insurance benefits

1. General - The State offers an opportunity to its employees and eligible retirees to participate in a self-insured indemnity policy (preferred provider plan), a point of service plan, or health maintenance organizations. This post employment benefit is authorized under Tennessee Code Annotated 8-27-205. The indemnity policy provides benefits to plan participants in a comprehensive, major medical format involving a $250 calendar year deductible and a $1,250 per individual out-of-pocket limit. The plans incorporate typical provisions relating to utilization review, medical necessity, pre-existing conditions, coordination of benefits and subrogation of expenses. The plans offer benefit incentives for the use of designated providers and the plans maintain limitations on benefits provided for the treatment of mental illness and substance abuse.

2. Retirees - Retirees who are not yet eligible for Medicare benefits may continue participation in the plan subject to certain length of service and participation requirements. Upon Medicare eligibility, the retiree is afforded the opportunity to participate in a self-insured supplement policy not associated with the plan. The State pays a service determined amount for retirees who participate in the state sponsored Medicare supplement policy.

   The funds collected for the plan's operation are recorded in the employee group insurance account. The plan's premiums are intended to fund benefits on a pay-as-you-go basis and no specified reserves have been established to fund retiree health benefits. Current retiree premium rates are based upon the retiree's length of service and range from 20 percent to 40 percent of the plan's total premium. The State provides no direct funding of retiree health benefits.

   During the 2002-2003 fiscal year, the State Plan provided approximately $48.3 million in benefits to an average of 6,159 retired employee participants.

3. Cobra - Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay as you go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 299 former employees during fiscal year 2002-2003, and the State Plan paid approximately $2.8 million in benefits to this group.

F. Gain contingencies

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement includes base payments to all states and territories totaling $206 billion from 1998 through 2023, and continues in perpetuity. Tennessee's share of the settlement is expected to be $4.8 billion through the year 2025. Third party lawsuits may affect future payments to Tennessee. Although Tennessee's share of the base payments may not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear.

G. Pension plans

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

   The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

   Plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 7.29% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2003, 2002, and 2001, were $264.321 million, $243.498 million, and $232.149 million respectively, equal to the required contributions for each year.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 404 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

   The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were $72.8 million for the year ending June 30, 2003.

   Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

4. Deferred Compensation - The State offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants.

   The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2003, contributions totaling $65.0 million were made by employees participating in the plans. Another $5.8 million was contributed by the State as matching contributions up to $20 per employee per month for the 401(k) plan match.

H. Investment pool

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various funds and component units.

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9th Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-1337.

I. Loan guarantees

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts. At June 30, 2003, TSAC was guarantor of $3.326 billion in student loans, substantially all of which were reinsured by the USDE. The State has no obligation under these student loan guarantees in the event of default.

J. Nashville correctional facilities revenue bonds

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville which were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2003, of $14.925 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

K. Litigation

A class action suit has been brought against the State, alleging that the State has failed to provide services to individuals with mental retardation and other developmental disabilities, which they are entitled to under Medicaid. Presently the State limits the number of individuals served under the Home and Community-Based Services Waiver and the plaintiffs assert that this is a violation of the Medicaid Act.

The small school systems in the State have previously filed suit against the State challenging the constitutionality of the funding formula for elementary and secondary education. In declaring the State's K-12 Better Education Program and its funding formula constitutional, the State Supreme Court also stated that the State must equalize teachers' salaries according to the BEP formula. In response, the General Assembly enacted the Teachers Salary Equity Plan, which plaintiff small school systems have challenged as inadequate. The Supreme Court ruled in the plaintiffs' favor and the Legislature must now address this issue.

A lawsuit has been filed which challenges the constitutionality of certain deductions used in the calculation of the franchise tax base, as being a violation of the interstate commerce clause. Should the State lose this case, the State could be exposed to significant refunds of franchise tax collections.

The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. Some of these lawsuits, including the three enumerated above may have a future budgetary programmatic impact, they will be addressed in future budgets.

L. Federal grants

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities when the loss becomes probable and reasonably estimable.

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration (HCFA) performed a review of the provider taxes collected for the period beginning fiscal year 1992 through September 2000. The purpose of the review was to determine whether there was a positive correlation between the nursing home provider taxes and a state grant program for private pay patients of nursing homes (Grant Assistance Program). Because CMS believes there is a positive correlation between the nursing home provider taxes and the nursing home grant assistance program, it concluded that the provider taxes are impermissible resulting in a reduction in federal financial participation. On January 19, 2001, the State received a notice of disallowance for this tax for the period October 1, 1992 through September 30, 2000. On February 16, 2001, the State appealed the disallowance. On June 11, 2001, the State received a second notice of disallowance for the period October 1, 2000 through March 31, 2001. On July 6, 2001, the State appealed the second disallowance and the two disallowances have been consolidated for appeal. If the disallowances were ultimately upheld, then CMS would offset the disallowed amounts against future federal participation in TennCare. The State eliminated the Grant Assistance Program effective August 1, 2001, and does not believe that the collection of provider taxes after that date will be challenged by CMS.

Other audits of the Medical Assistance Program (TennCare) have resulted in significant amounts of known and likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditure of resources for ineligible TennCare enrollees and for unauthorized services. The ultimate liability to the federal government, if any, cannot presently be determined. If HHS were to impose a liability, the State would appeal the decision.

M. Subsequent events

Primary Government

Subsequent to June 30, the State issued $20 million in general obligation commercial paper. Also, the State issued 2003A series tax exempt bonds in the amount of $151.855 million and 2003B series taxable bonds in the amount of $22.18 million in August.

Component Units

Subsequent to June 30, Tennessee Housing Development Authority (THDA) issued $60 million of revenue bonds in July 2003, $191.885 million of revenue bonds in September 2003, and $75 million of revenue bonds in October 2003. THDA called revenue bonds in the amount of $341.603 million through November. Also, in July the agency drew $190.465 million of Series 2002CN-1 Notes, in August, the agency drew $27.070 million of Series 2002CN-1 Notes, and in November, the agency drew $89.355 million of 2002CN-1 Notes.

Subsequent to June 30, the Tennessee State School Bond Authority issued $17 million in commercial paper.

REQUIRED SUPPLEMENTARY INFORMATION

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	$ 625,115	$ 625,115	$ 625,115	
Add:				
Prior year encumbrances reappropriated	6,426	6,426	6,426	
Contract reserves reappropriated				
Adjusted fund balances (Budgetary basis), July 1	631,541	631,541	631,541	
Revenues:				
Taxes	4,355,464	4,355,464	4,392,685	$ 37,221
Licenses, fines, fees, and permits	147,702	147,702	162,758	15,056
Interest on investments	13,000	13,000	13,639	639
Federal	5,661,717	6,825,286	6,442,962	(382,324)
Departmental services	1,558,819	1,593,156	1,617,726	24,570
Other	15,703	15,703	375,363	359,660
Other financing sources:				
Transfers in	31,250	31,250	31,250	
Bond authorizations				
Total sources of financial resources	12,415,196	13,613,102	13,667,924	54,822
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	41,685	41,760	27,197	14,563
Secretary of State	38,071	38,480	28,610	9,870
Comptroller	52,865	72,191	69,233	2,958
Treasurer	34,307	37,377	34,056	3,321
Governor	5,151	4,698	3,957	741
Commissions	66,986	73,666	60,240	13,426
Finance and Administration	75,283	74,018	54,583	19,435
Personnel	9,972	12,504	10,177	2,327
General Services	18,888	19,288	17,283	2,005
Revenue	64,404	64,797	57,742	7,055
Miscellaneous Appropriations	18,938	20,158	13,113	7,045
Education				
Health and social services				
Veterans Affairs	3,852	4,134	3,300	834
Labor and Workforce Development	206,038	208,102	185,943	22,159
TennCare	6,082,413	7,234,437	6,864,487	369,950
Mental Health and Mental Retardation	783,057	821,571	772,121	49,450
Health	427,158	441,741	402,751	38,990
Human Services	1,420,103	1,614,564	1,597,681	16,883
Children's Serviees	549,350	551,263	517,261	34,002
Law, justice and public safety				
Judicial	203,069	209,634	192,298	17,336
Correction	516,668	510,731	475,653	35,078
Probation and Parole	58,198	58,198	55,287	2,911
Military	49,085	63,006	53,004	10,002
Bureau of Criminal Investigation	45,560	47,614	45,225	2,389
Safety	171,692	166,896	146,203	20,693
Recreation and resource development				
Agriculture	58,781	59,518	52,923	6,595
Tourist Development	12,852	12,853	12,231	622
Environment and Conservation	202,708	201,691	161,720	39,971
Economic and Community Development	99,613	99,613	62,065	37,548
Regulation of business and professions				
Commerce and Insurance	55,149	55,200	45,952	9,248
Financial Institutions	9,061	8,677	8,630	47
Transportation				
State Shared Taxes Paid to Local Governments	360,801	360,801	360,801	
Other financing uses:				
Transfers out	553,272	594,548	594,548	
Total uses of financial resources	12,295,030	13,783,729	12,986,275	797,454
Fund balances (budgetary basis), June 30	$ 120,166	$ (170,627)	$ 681,649	$ 852,276

Education Fund				Highway Fund			
Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final			Original	Final		
$ 41,158	$ 41,158	$ 41,158		$ 6,617	$ 6,617	$ 6,617	
548	548	548		5,327	5,327	5,327	
				247,308	247,308	247,308	
41,706	41,706	41,706		259,252	259,252	259,252	
3,330,418	3,330,418	3,292,896	$ (37,522)	712,900	712,900	736,648	$ 23,748
1,700	1,700	1,823	123	201,400	201,400	195,798	(5,602)
						14	14
666,663	688,947	602,004	(86,943)	772,656	2,585,990	566,350	(2,019,640)
18,627	19,027	17,253	(1,774)	35,644	70,407	36,188	(34,219)
		2,526	2,526	3,900	3,900	4,804	904
496,000	511,220	511,220			77,000	77,000	
				77,000			
4,555,114	4,593,018	4,469,428	(123,590)	2,062,752	3,910,849	1,876,054	(2,034,795)
4,576,703	4,614,289	4,424,433	189,856				
				1,807,685	3,625,854	1,557,869	2,067,985
				280,470	280,470	280,470	
1,002	1,016	1,016		1,142	31,142	31,142	
4,577,705	4,615,305	4,425,449	189,856	2,089,297	3,937,466	1,869,481	2,067,985
$ (22,591)	$ (22,287)	$ 43,979	$ 66,266	$ (26,545)	$ (26,617)	$ 6,573	$ 33,190

State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2003

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	General Fund	Education Fund	Highway Fund
Sources of financial resources			
Actual amounts (budgetary basis)	$ 13,667,924	$ 4,469,428	$ 1,876,054
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(631,541)	(41,706)	(259,252)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial statement purposes.	(31,250)	(511,220)	(77,000)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 13,005,133	$ 3,916,502	$ 1,539,802
Uses of financial resources			
Actual amounts (budgetary basis)	$ 12,986,275	$ 4,425,449	$ 1,869,481
Differences - budget to GAAP:			
Encumbrances for supplies, equipment, and construction are reported in the year the order is placed for budgetary purposes, but in the year the goods or services are received for financial reporting purposes.	(7,273)	0	(199,928)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(594,548)	(1,016)	(31,142)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 12,384,454	$ 4,424,433	$ 1,638,411

ROADWAYS

Measurement Scale

The state uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, are inspected annually and rated in accordance with the MRI criteria. (For the year ended June 30, 2003, 6,691 segments were inspected.) The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level

The state intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions

The condition assessment for roadways for the year ended June 30, 2003 was 90.41 and 87.75 for the year ended June 30, 2002.

BRIDGES

Measurement Scale

The state maintains information on its 8,030 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

The state intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions

The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2002	79.86%
June 30, 2000	82.35%
June 30, 1998	79.39%

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

The following table presents the state's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands):

For the Period Ended		Roadways	Bridges
June 30, 2003	Estimated	$ 289,516	$ 28,787
	Actual	$ 285,459	$ 39,557
June 30, 2002	Estimated	$ 290,583	$ 28,830
	Actual	$ 278,683	$ 20,527

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting. Additional years will be reported when data is available.

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SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds – A description of these funds is found later in this section.

Debt Service Fund - The Debt Service Fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Capital Projects Fund – The Capital Projects Fund is maintained to account for the acquisition or construction of major governmental general fixed assets financed principally by long-term bonds.

Permanent Funds – Description of these funds is found later in this section.

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2003

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	$ 232,791	$ 30,489	$ 179,732	$ 27,736	$ 470,748
Investments				205,560	205,560
Receivables:					
Taxes	5,499	4,259		33	9,791
Due from other governments	1,779		1,106		2,885
Interest				1,515	1,515
Other	100			3	103
Due from other funds	11				11
Due from component units			79	684	763
Loans receivable	11,154	8,300			19,454
Restricted assets:					
Cash and cash equivalents			17,879		17,879
Total assets	$ 251,334	$ 43,048	$ 198,796	$ 235,531	$ 728,709
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 24,138	$ 316	$ 4,032	$ 5,181	$ 33,667
Due to other funds	321				321
Due to component units			4,030	2,501	6,531
Deferred revenue	1,940	8,999	1		10,940
Deposits payable	1				1
Payable from restricted assets			5,421		5,421
Total liabilities	26,400	9,315	13,484	7,682	56,881
Fund balances:					
Reserved for:					
Encumbrances and contracts	2,377		58,427		60,804
Specific purposes:					
Wildlife Resources	36,268				36,268
Criminal injuries	4,178				4,178
Environmental programs	35,690				35,690
Job skills	23,497				23,497
Enhanced 911 service	48,431				48,431
Parks acquisition	19,710				19,710
Community development	26,218				26,218
Capital projects			126,885		126,885
Other specific purposes	28,565	33,733			62,298
Permanent funds:					
Expendable				13,788	13,788
Nonexpendable				214,061	214,061
Total fund balances	224,934	33,733	185,312	227,849	671,828
Total liabilities and fund balances	$ 251,334	$ 43,048	$ 198,796	$ 235,531	$ 728,709

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - By Fund Type
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues					
Taxes:					
Sales		$ 39,069			$ 39,069
Fuel	$ 17,555	77,000			94,555
Business	3	109,239			109,242
Other	30,503				30,503
Licenses, fines, fees, and permits	115,777	2,592		$ 1,881	120,250
Interest on investments	3,750			11,026	14,776
Federal	26,852		$ 8,216		35,068
Departmental services	14,865	4,000	26,127		44,992
Other	1,465			378	1,843
Total revenues	210,770	231,900	34,343	13,285	490,298
Expenditures					
Current:					
General government	17,290				17,290
Education				7,638	7,638
Law, justice and public safety	6,051				6,051
Recreation and resources development	155,867			107	155,974
Regulation of business and professions	16,527				16,527
Debt service:					
Bond principal retirement		74,108			74,108
Commercial paper retirement		4,000			4,000
Bond interest		46,422			46,422
Commercial paper interest		1,542			1,542
Debt issuance costs		650			650
Capital outlay			132,949		132,949
Total expenditures	195,735	126,722	132,949	7,745	463,151
Excess (deficiency) of revenues over (under) expenditures	15,035	105,178	(98,606)	5,540	27,147
Other financing sources (uses)					
Bond and commercial paper proceeds			95,195		95,195
Commercial paper redeemed			(3,900)		(3,900)
Transfers in	1,882	5,158	52,981	252	60,273
Transfers out	(308)	(81,130)	(108)		(81,546)
Total other financing sources (uses)	1,574	(75,972)	144,168	252	70,022
Net changes in fund balances	16,609	29,206	45,562	5,792	97,169
Fund balances, July 1	208,325	4,527	139,750	222,057	574,659
Fund balances, June 30	$ 224,934	$ 33,733	$ 185,312	$ 227,849	$ 671,828

NONMAJOR SPECIAL REVENUE FUNDS

Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.

Wildlife Resources Agency - This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation - The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste - This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Job Skills - This program is administered by the Department of Economic and Community Development. Revenues are collected from a tax on employer's wages. The revenues will be used to enhance employment opportunites and to meet the needs of existing and new industries in the state.

Environmental Protection - This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste - This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition - This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards - This organization was formed by the Tennessee Supreme Court to consider and investigate any alleged ground for discipline or alleged incapacity of any attorney, and to provide continuing legal education for attorneys. Revenues are collected from attorneys.

Underground Storage Tanks - This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service - This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Community Development – This fund is used to account for the federal monies received under the Community Development Block Grant Program.

Driver Education - This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The $2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program - This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution - This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Regulatory Boards - This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees assessed on licenses to real estate brokers, affiliate real estate brokers or auctioneers. These revenues are used to pay court judgments for violations by brokers, contractors or auctioneers of the applicable acts or of any rules promulgated by the appropriate officials.

Salvage Title Enforcement - This program is administered by the Department of Safety. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Dairy Promotion Board - This Board was formed to promote the consumption of milk and milk products. Revenue is derived from an assessment against commercial milk and milk product producers.

Drycleaner's Environmental Response - This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various drycleaning solvents used.

Agricultural Regulatory Fund - This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority - The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Small and Minority Telecommunication - This program provides loan guarantees and technical assistance to small and minority-owned telecommunication companies. Revenues collected during fiscal years 1997-2001, were derived from a fee on telecommunication service providers.

Sex Offender Treatment Program - This program was formed to standardize the evaluation, identification, treatment and continued monitoring of sex offenders. Revenue is derived from a fine on those convicted of a sex offense.

Fraud and Economic Crime - This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2003

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Environmental Protection
Assets					
Cash and cash equivalents	$ 39,145	$ 8,671	$ 14,423	$ 25,720	$ 11,241
Receivables:					
Taxes	835	264	1,371	1	
Due from other governments	1,446				
Other	13		1		
Due from other funds	2			9	
Loans receivable					
Total assets	$ 41,441	$ 8,935	$ 15,795	$ 25,730	$ 11,241
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 2,592	$ 4,757	$ 1,507	$ 2,232	$ 26
Due to other funds	214		8	1	
Deferred revenue					
Deposits payable					
Total liabilities	2,806	4,757	1,515	2,233	26
Fund balances:					
Reserved for:					
Encumbrances and contracts	2,367				
Specific purposes:					
Wildlife Resources	36,268				
Criminal injuries		4,178			
Environmental programs			14,280		11,215
Job skills				23,497	
Enhanced 911 service					
Parks acquisition					
Community development					
Other specific purposes					
Total fund balances	38,635	4,178	14,280	23,497	11,215
Total liabilities and fund balances	$ 41,441	$ 8,935	$ 15,795	$ 25,730	$ 11,241

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development	Driver Education
$ 5,986	$ 19,091	$ 2,422	$ 6,340	$ 50,600	$ 15,064	$ 671
	780		1,840			48
80			68			
1		79	1			
					11,154	
$ 6,067	$ 19,871	$ 2,501	$ 8,249	$ 50,600	$ 26,218	$ 719
$ 676	$ 161	$ 46	$ 7,668	$ 2,165		$ 6
21			26	2		1
1,286		12	555			
1,983	161	58	8,249	2,167		7
				2		
4,084						
				48,431		
	19,710					
					$ 26,218	
		2,443				712
4,084	19,710	2,443	-	48,433	26,218	712
$ 6,067	$ 19,871	$ 2,501	$ 8,249	$ 50,600	$ 26,218	$ 719

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2003

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
Assets					
Cash and cash equivalents	$ 860	$ 1,714	$ 3,485	$ 263	$ 6
Receivables:					
Taxes		356			
Due from other governments					
Other					
Due from other funds					
Loans receivable					
Total assets	$ 860	$ 2,070	$ 3,485	$ 263	$ 6
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 17	$ 1,216	$ 3	$ 35	$ 1
Due to other funds				7	
Deferred revenue					
Deposits payable					
Total liabilities	17	1,216	3	42	1
Fund balances:					
Reserved for:					
Encumbrances and contracts				7	
Specific purposes:					
Wildlife Resources					
Criminal injuries					
Environmental programs	843	854			
Job skills					
Enhanced 911 service					
Parks acquisition					
Community development					
Other specific purposes			3,482	214	5
Total fund balances	843	854	3,482	221	5
Total liabilities and fund balances	$ 860	$ 2,070	$ 3,485	$ 263	$ 6

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Telecommunication	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 5,250	$ 3,664	$ 4,785	$ 11,202	$ 209	$ 1,979	$ 232,791
				4		5,499
		185				1,779
		5				100
						11
						11,154
$ 5,250	$ 3,664	$ 4,975	$ 11,202	$ 213	$ 1,979	$ 251,334
$ 832		$ 185		$ 13		$ 24,138
3		38				321
			$ 87			1,940
		1				1
835		224	87	13		26,400
1						2,377
						36,268
						4,178
4,414						35,690
						23,497
						48,431
						19,710
						26,218
	$ 3,664	4,751	11,115	200	$ 1,979	28,565
4,415	3,664	4,751	11,115	200	1,979	224,934
$ 5,250	$ 3,664	$ 4,975	$ 11,202	$ 213	$ 1,979	$ 251,334

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Environmental Protection
Revenues					
Taxes:					
Fuel	$ 518				
Business				$ 3	
Other	7,859	$ 4,321	$ 5,429		
Licenses, fines, fees, and permits	29,082	2,647	5,101		$ 30,555
Interest on investments	533	95	225	485	185
Federal	18,182	5,095			
Departmental services	10,651		105	31	
Other		540			
Total revenues	66,825	12,698	10,860	519	30,740
Expenditures					
General government		10,366			
Law, justice and public safety					
Recreation and resources development	64,094		8,884	7,042	29,923
Regulation of business and professions					
Total expenditures	64,094	10,366	8,884	7,042	29,923
Excess (deficiency) of revenues over (under) expenditures	2,731	2,332	1,976	(6,523)	817
Other financing sources (uses)					
Transfers in	816				
Transfers out	(264)				
Total other financing sources (uses)	552				
Net change in fund balances	3,283	2,332	1,976	(6,523)	817
Fund balances, July 1	35,352	1,846	12,304	30,020	10,398
Fund balances, June 30	$ 38,635	$ 4,178	$ 14,280	$ 23,497	$ 11,215

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development	Driver Education
			$ 17,037			
	$ 7,860					
	72	$ 4,538	2,389	$ 28,455		$ 551
$ 104	243	53	115	687	$ 690	
1,134	644		1,385			
3,490	9	215	327			
		11			914	
4,728	8,828	4,817	21,253	29,142	1,604	551
		3,745				242
7,970	2,115		21,325		5,803	
				16,401		
7,970	2,115	3,745	21,325	16,401	5,803	242
(3,242)	6,713	1,072	(72)	12,741	(4,199)	309
1,066						
						(23)
1,066						(23)
(2,176)	6,713	1,072	(72)	12,741	(4,199)	286
6,260	12,997	1,371	72	35,692	30,417	426
$ 4,084	$ 19,710	$ 2,443	$ -	$ 48,433	$ 26,218	$ 712

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
Revenues					
Taxes:					
Fuel					
Business					
Other		$ 3,627			$ 1,294
Licenses, fines, fees, and permits	$ 2		$ 225	$ 565	
Interest on investments	14	12	54		1
Federal				4	
Departmental services			7		
Other					
Total revenues	16	3,639	286	569	1,295
Expenditures					
General government					
Law, justice and public safety				706	
Recreation and resources development	17	2,785			1,297
Regulation of business and professions			126		
Total expenditures	17	2,785	126	706	1,297
Excess (deficiency) of revenues over (under) expenditures	(1)	854	160	(137)	(2)
Other financing sources (uses)					
Transfers in					
Transfers out					
Total other financing sources (uses)					
Net change in fund balances	(1)	854	160	(137)	(2)
Fund balances, July 1	844	-	3,322	358	7
Fund balances, June 30	$ 843	$ 854	$ 3,482	$ 221	$ 5

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Telecommunication	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
						$ 17,555
						3
				$ 113		30,503
$ 1,179	$ 2,166	$ 7,223			$ 1,027	115,777
93	66		$ 94		1	3,750
24		384				26,852
		4		26		14,865
						1,465
1,296	2,232	7,611	94	139	1,028	210,770
		6,635	289			17,290
				169	1,189	6,051
2,091	2,521					155,867
						16,527
2,091	2,521	6,635	289	169	1,189	195,735
(795)	(289)	976	(195)	(30)	(161)	15,035
						1,882
		(21)				(308)
		(21)				1,574
(795)	(289)	955	(195)	(30)	(161)	16,609
5,210	3,953	3,796	11,310	230	2,140	208,325
$ 4,415	$ 3,664	$ 4,751	$ 11,115	$ 200	$ 1,979	$ 224,934

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 32,311	$ 32,311	
Add:			
Prior year encumbrances liquidated	518	518	
Adjusted fund balances (budgetary basis), July 1	32,829	32,829	
Revenues:			
Taxes	6,700	8,377	$ 1,677
Licenses, fines, fees, and permits	35,785	29,082	(6,703)
Interest on investments		533	533
Federal	22,192	18,182	(4,010)
Departmental services	15,597	10,651	(4,946)
Other			
Other financing sources - transfers in	816	816	
Total sources of financial resources	113,919	100,470	(13,449)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	86,253	63,938	22,315
Economic and Community Development			
Commerce and Insurance			
Other financing uses-transfers out	264	264	
Total uses of financial resources	86,517	64,202	22,315
Fund balances (budgetary basis), June 30	$ 27,402	$ 36,268	$ 8,866

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,846	$ 1,846		$ 12,304	$ 12,304	
1,846	1,846		12,304	12,304	
	4,321	$ 4,321	5,500	5,429	$ (71)
	2,647	2,647	4,962	5,101	139
	95	95		225	225
3,396	5,095	1,699			
			234	105	(129)
	540	540			
5,242	14,544	9,302	23,000	23,164	164
11,641	10,366	1,275			
			10,696	8,884	1,812
11,641	10,366	1,275	10,696	8,884	1,812
$ (6,399)	$ 4,178	$ 10,577	$ 12,304	$ 14,280	$ 1,976

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Job Skills		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 30,020	$ 30,020	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	30,020	30,020	
Revenues:			
Taxes		3	$ 3
Licenses, fines, fees, and permits			
Interest on investments	600	485	(115)
Federal			
Departmental services		31	31
Other			
Other financing sources - transfers in			
Total sources of financial resources	30,620	30,539	(81)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	17,834	7,042	10,792
Commerce and Insurance			
Other financing uses-transfers out			
Total uses of financial resources	17,834	7,042	10,792
Fund balances (budgetary basis), June 30	$ 12,786	$ 23,497	$ 10,711

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 10,398	$ 10,398		$ 6,260	$ 6,260	
10,398	10,398		6,260	6,260	
33,804	30,555	$ (3,249)			
	185	185		104	$ 104
			2,152	1,134	(1,018)
			4,265	3,490	(775)
			1,066	1,066	
44,202	41,138	(3,064)	13,743	12,054	(1,689)
33,804	29,923	3,881	10,974	7,970	3,004
33,804	29,923	3,881	10,974	7,970	3,004
$ 10,398	$ 11,215	$ 817	$ 2,769	$ 4,084	$ 1,315

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 12,997	$ 12,997	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	12,997	12,997	
Revenues:			
Taxes	7,766	7,860	$ 94
Licenses, fines, fees, and permits		72	72
Interest on investments		243	243
Federal		644	644
Departmental services		9	9
Other			
Other financing sources - transfers in			
Total sources of financial resources	20,763	21,825	1,062
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	7,039	2,115	4,924
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Other financing uses-transfers out			
Total uses of financial resources	7,039	2,115	4,924
Fund balances (budgetary basis), June 30	$ 13,724	$ 19,710	$ 5,986

(continued on next page)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,371	$ 1,371		$ 72	$ 72	
1,371	1,371		72	72	
			17,603	17,037	$ (566)
	4,538	$ 4,538	2,600	2,389	(211)
	53	53		115	115
			2,301	1,385	(916)
	215	215		327	327
	11	11			
1,371	6,188	4,817	22,576	21,325	(1,251)
3,912	3,745	167			
			23,294	21,325	1,969
3,912	3,745	167	23,294	21,325	1,969
$ (2,541)	$ 2,443	$ 4,984	$ (718)	$ -	$ 718

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 35,692	$ 35,692	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	35,692	35,692	
Revenues:			
Taxes			
Licenses, fines, fees, and permits		28,455	$ 28,455
Interest on investments		687	687
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	35,692	64,834	29,142
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	26,161	16,403	9,758
Other financing uses-transfers out			
Total uses of financial resources	26,161	16,403	9,758
Fund balances (budgetary basis), June 30	$ 9,531	$ 48,431	$ 38,900

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 426	$ 426		$ 844	$ 844	
426	426		844	844	
410	551	$ 141	500	2	$ (498)
				14	14
836	977	141	1,344	860	(484)
387	242	145			
			500	17	483
23	23				
410	265	145	500	17	483
$ 426	$ 712	$ 286	$ 844	$ 843	$ (1)

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1			
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1			
Revenues:			
Taxes	$ 2,905	$ 3,627	$ 722
Licenses, fines, fees, and permits			
Interest on investments	100	12	(88)
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	3,005	3,639	634
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture	3,005	2,785	220
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Other financing uses-transfers out			
Total uses of financial resources	3,005	2,785	220
Fund balances (budgetary basis), June 30	$ -	$ 854	$ 854

(continued on next page)

Regulatory Boards			Salvage Title Enforcement		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 3,322	$ 3,322		$ 358	$ 358	
3,322	3,322		358	358	
	225	$ 225	733	565	$ (168)
	54	54			
				4	4
	7	7			
3,322	3,608	286	1,091	927	(164)
			733	713	20
355	126	229			
355	126	229	733	713	20
$ 2,967	$ 3,482	$ 515	$ 358	$ 214	$ (144)

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Drycleaner's Environmental Response		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 5,207	$ 5,207	
Add:			
Prior year encumbrances liquidated	3	3	
Adjusted fund balances (budgetary basis), July 1	5,210	5,210	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,400	1,179	$ (1,221)
Interest on investments		93	93
Federal		24	24
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	7,610	6,506	(1,104)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	2,400	2,092	308
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Other financing uses-transfers out			
Total uses of financial resources	2,400	2,092	308
Fund balances (budgetary basis), June 30	$ 5,210	$ 4,414	$ (796)

(continued on next page)

Agricultural Regulatory Fund			Tennessee Regulatory Authority		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 3,953	$ 3,953		$ 3,786	$ 3,786	
			9	9	
3,953	3,953		3,795	3,795	
1,903	2,166	$ 263	7,618	7,223	$ (395)
120	66	(54)			
			317	384	67
			8	4	(4)
5,976	6,185	209	11,738	11,406	(332)
			7,922	6,634	1,288
2,698	2,521	177			
			21	21	
2,698	2,521	177	7,943	6,655	1,288
$ 3,278	$ 3,664	$ 386	$ 3,795	$ 4,751	$ 956

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Small and Minority Telecommunication		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 11,310	$ 11,310	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	11,310	11,310	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		94	$ 94
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	11,310	11,404	94
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	330	289	41
Commerce and Insurance			
Other financing uses-transfers out			
Total uses of financial resources	330	289	41
Fund balances (budgetary basis), June 30	$ 10,980	$ 11,115	$ 135

Sex Offender Treatment Program			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 230	$ 230		$ 172,707	$ 172,707	
			530	530	
230	230		173,237	173,237	
	113	$ 113	40,474	46,767	$ 6,293
			90,715	114,750	24,035
			820	3,058	2,238
			30,358	26,852	(3,506)
	26	26	20,104	14,865	(5,239)
				551	551
			1,882	1,882	
230	369	139	357,590	381,962	24,372
			3,912	3,745	167
			11,641	10,366	1,275
			7,922	6,634	1,288
180	169	11	180	169	11
			1,120	955	165
			5,703	5,306	397
			88,707	72,326	16,381
			86,253	63,938	22,315
			18,164	7,331	10,833
			26,516	16,529	9,987
			308	308	
180	169	11	250,426	187,607	62,819
$ 50	$ 200	$ 150	$ 107,164	$ 194,355	$ 87,191

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PERMANENT FUNDS

Chairs of Excellence Fund – This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Academic Scholars Fund – This fund is used to account for the academic scholars program administered by Tennessee Student Assistance Corporation. An endowment was established in 1986 to provide scholarships to superior students from the interest earnings.

Other – Various smaller funds that are legally restricted to the extent that only earnings, not principal can be spent.

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2003

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Assets				
Cash and cash equivalents	$ 8,367	$ 4	$ 19,365	$ 27,736
Investments	202,359	3,201		205,560
Receivables:				
Taxes			33	33
Interest	1,515			1,515
Other			3	3
Due from component units	684			684
Total assets	$ 212,925	$ 3,205	$ 19,401	$ 235,531
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	$ 5,181			5,181
Due to component units	2,501			$ 2,501
Total liabilities	7,682			7,682
Fund balances:				
Reserved for:				
Expendable	11,930	$ 500	$ 1,358	13,788
Nonexpendable	193,313	2,705	18,043	214,061
Total fund balances	205,243	3,205	19,401	227,849
Total liabilities and fund balances	$ 212,925	$ 3,205	$ 19,401	$ 235,531

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Revenues				
Licenses, fines, fees and permits			$ 1,881	$ 1,881
Interest on investments	$ 10,550	$ 189	287	11,026
Other	160		218	378
Total revenues	10,710	189	2,386	13,285
Expenditures				
Education	7,078	560		7,638
Recreation and resources development			107	107
Total expenditures	7,078	560	107	7,745
Excess (deficiency) of revenues over (under) expenditures	3,632	(371)	2,279	5,540
Other financing sources (uses)				
Transfers in		252		252
Total other financing sources (uses)		252		252
Net change in fund balances	3,632	(119)	2,279	5,792
Fund balances, July 1	201,611	3,324	17,122	222,057
Fund balances, June 30	$ 205,243	$ 3,205	$ 19,401	$ 227,849

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GENERAL FUND SUPPLEMENTARY SCHEDULES

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2003 and 2002

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
Taxes:		
Sales and use	$ 2,237,499	$ 1,479,950
Gasoline	8,633	9,084
Motor fuel	2,947	2,866
Gasoline inspection	636	647
Total fuel taxes	12,216	12,597
Franchise	457,984	410,590
Excise	504,476	440,678
Gross receipts	214,457	227,339
Beer	14,923	13,416
Alcoholic beverage	34,059	30,032
Mixed drink	20,501	18,891
Tobacco	622	622
Business	40,482	21,115
Insurance companies premium	302,387	265,473
Retaliatory	5,406	4,944
Workers compensation premium	41,366	38,402
Medicaid provider	101,700	100,976
Other	1,516	1,111
Total business taxes	1,739,879	1,573,589
Income	102,939	171,072
Privilege	216,423	177,390
Inheritance and estate	83,148	104,481
Other	581	556
Total other taxes	403,091	453,499
Total taxes	4,392,685	3,519,635
Licenses, fines, fees and permits:		
Motor vehicle registration	39,830	36,133
Motor vehicle title registration fees	8,387	8,128
Drivers licenses	22,193	22,175
Arrests, fines and fees	9,299	9,166
Regulatory board fees	31,767	25,757
Other	51,282	50,724
Total licenses, fines, fees and permits	162,758	152,083
Interest on investments	13,639	37,915
Federal - earned by state departments	6,442,962	5,603,008
Departmental services:		
Charges to the public	340,956	346,308
Interdepartmental charges	958,947	900,011
Charges to cities, counties, etc.	317,823	266,440
Total departmental services	1,617,726	1,512,759
Federal tax relief	96,733	
Other	278,630	434,014
Total revenues by source	$ 13,005,133	$ 11,259,414

State of Tennessee
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2003 and 2002

(Expressed in Thousands)

Expenditures by function and department	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
General government:		
Legislative	$ 27,197	$ 25,711
Secretary of State	28,414	27,621
Comptroller	69,075	48,457
Treasurer	34,056	27,934
Governor	3,957	3,585
Commissions	60,231	56,297
Finance and Administration	54,509	52,592
Personnel	10,176	9,588
General Services	17,283	16,825
Revenue	57,684	58,282
Miscellaneous Appropriations	12,875	12,362
Total general government	375,457	339,254
Health and social services:		
Veterans Affairs	3,277	2,744
Labor and Workforce Development	185,943	169,621
TennCare	6,864,487	6,107,073
Mental Health and Mental Retardation	771,531	709,171
Health	402,666	372,563
Human Services	1,597,681	1,396,714
Children's Services	517,097	492,140
Total health and social services	10,342,682	9,250,026
Law, justice and public safety:		
Judicial	192,298	185,200
Correction	472,882	450,532
Probation and Paroles	55,268	52,925
Military	52,971	42,441
Bureau of Criminal Investigation	45,225	41,819
Safety	145,347	136,563
Total law, justice and public safety	963,991	909,480
Recreation and resources development:		
Agriculture	52,495	57,468
Tourist Development	12,231	12,126
Environment and Conservation	160,154	142,987
Economic and Community Development	62,061	72,421
Total recreation and resources development	286,941	285,002
Regulation of business and professions:		
Commerce and Insurance	45,952	42,798
Financial Institutions	8,630	8,273
Total regulation of business and professions	54,582	51,071
State shared taxes paid to local governments	360,801	416,369
Total expenditures by function and department	$ 12,384,454	$ 11,251,202

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NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.

State Loan Program - Operated since the early 1970's through the Department of Environment and Conservation, this program has provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery and waterworks facilities. In order for these borrowing entities to generate funds necessary to repay the loans, the imposition of a user's fee by the local systems was authorized. In order to finance this program, general obligation bonds were sold which, although remaining full faith and credit obligations of the state, are being retired from resources of this fund. Future financing for this program will be generated from the sale of revenue bonds or notes by the Local Development Authority.

Energy Loan Program - Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance - Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance - Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan – Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity - This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Property Utilization, a division of the Department of General Services - This agency receives surplus federal property and redistributes it to civil defense units, health and educational institutions and other eligible donees within the state. The agency collects fees from the donees to offset operating costs. In addition, this agency handles surplus property by the various State agencies.

Medicare Supplement Insurance – Established in January 2001, this fund is used to account for revenues received and claims paid on behalf of retirees who are eligible for medicare coverage and elect coverage under the Medicare Supplement Insurance Plan.

Client Protection – This fund was created by the Tennessee Supreme Court to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2003

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Assets				
Current assets:				
Cash and cash equivalents	$ 3,624	$ 18,597	$ 30,150	
Receivables:				
Accounts receivable			1,964	$ 659
Interest				
Loans receivable-current	2,990	1,654		
Due from component units				19
Inventory				
Total current assets	6,614	20,251	32,114	678
Noncurrent assets:				
Deferred charges	70			
Loans receivable	8,174	5,201		
Total noncurrent assets	8,244	5,201		
Total assets	14,858	25,452	32,114	678
Liabilities				
Current liabilities:				
Accounts payable and accruals	529		22,823	11,027
Due to other funds				2,535
Due to component units				2
Bonds payable-current	2,990			
Deferred revenue			991	124
Total current liabilities	3,519		23,814	13,688
Noncurrent liabilities:				
Bonds payable, net	8,080			
Other noncurrent liabilities				
Total noncurrent liabilities	8,080			
Total liabilities	11,599		23,814	13,688
Net assets				
Restricted				
Unrestricted (deficit)	3,259	25,452	8,300	(13,010)
Total net assets	$ 3,259	$ 25,452	$ 8,300	$ (13,010)

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
$ 13,258	$ 3,622	$ 305	$ 27,388	$ 1,661	$ 98,605
		59	236		2,918
2					2
519					5,163
		4			23
		18			18
13,779	3,622	386	27,624	1,661	106,729
					70
20,017					33,392
20,017					33,462
33,796	3,622	386	27,624	1,661	140,191
8		91	5,533		40,011
		4			2,539
					2
					2,990
			643		1,758
8		95	6,176		47,300
					8,080
		31			31
		31			8,111
8		126	6,176		55,411
33,788					33,788
	3,622	260	21,448	1,661	50,992
$ 33,788	$ 3,622	$ 260	$ 21,448	$ 1,661	$ 84,780

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Operating revenues				
Charges for services	$ 473	$ 221		
Investment income	65	285		
Premiums			$ 249,838	$ 101,206
Other				6
Total operating revenues	538	506	249,838	101,212
Operating expenses				
Personal services				
Contractual services	29		19,951	7,998
Materials and supplies				
Rentals and insurance				
Interest	628			
Depreciation and amortization	10			
Benefits			215,319	94,985
Other	33	8	1,320	578
Total operating expenses	700	8	236,590	103,561
Operating income (loss)	(162)	498	13,248	(2,349)
Nonoperating revenues (expenses)				
Operating grants	(25)	65		
Interest income			252	13
Total nonoperating revenues (expenses)	(25)	65	252	13
Income (loss) before transfers	(187)	563	13,500	(2,336)
Transfers in			6,850	
Change in net assets	(187)	563	20,350	(2,336)
Net assets, July 1	3,446	24,889	(12,050)	(10,674)
Net assets, June 30	$ 3,259	$ 25,452	$ 8,300	$ (13,010)

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
$ 391		$ 1,659		$ 339	$ 3,083
204					554
			$ 34,340		385,384
					6
595		1,659	34,340	339	389,027
		632		6	638
617		324	5,130	46	34,095
		587			587
		152			152
					628
					10
			33,958		344,262
	$ 119	54	303	1	2,416
617	119	1,749	39,391	53	382,788
(22)	(119)	(90)	(5,051)	286	6,239
6,862					6,902
	58		422	23	768
6,862	58		422	23	7,670
6,840	(61)	(90)	(4,629)	309	13,909
1,619			5,418		13,887
8,459	(61)	(90)	789	309	27,796
25,329	3,683	350	20,659	1,352	56,984
$ 33,788	$ 3,622	$ 260	$ 21,448	$ 1,661	$ 84,780

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Cash flows from operating activities				
Receipts from customers and users			$ 249,699	$ 101,364
Receipts from interfund services provided				
Payments to suppliers			(237,599)	(104,245)
Payments to employees				
Payments for interfund services used	$ (29)		(1,320)	(578)
Net cash from (used for) operating activities	(29)		10,780	(3,459)
Cash flows from noncapital financing activities				
Operating grants received		$ 65		
Negative cash balance implicitly financed				2,535
Transfers in			6,850	
Payments to component units	(25)			
Principal payments	(2,845)			
Interest paid	(684)			
Subsidy to borrowers	(65)			
Net cash from (used for) noncapital financing activities	(3,619)	65	6,850	2,535
Cash flows from investing activities				
Loans issued		(776)		
Collection of loan principal	3,110	1,690		
Proceeds from investments				
Interest received	537	506	252	13
Net cash from (used for) investing activities	3,647	1,420	252	13
Net increase (decrease) in cash and cash equivalents	(1)	1,485	17,882	(911)
Cash and cash equivalents, July 1	3,625	17,112	12,268	911
Cash and cash equivalents, June 3	$ 3,624	$ 18,597	$ 30,150	$ -
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ (162)	$ 498	$ 13,248	$ (2,349)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	10			
Provision for uncollectible accounts		8		
Investment income	(65)	(285)		
Charges for services	(473)	(221)		
Interest expense	628			
Subsidy to borrowers	33			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			(1,717)	(341)
(Increase) decrease in due from component units				(19)
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			(1,120)	(781)
Increase (decrease) in due to component units				2
Increase (decrease) in deferred revenue			369	29
Total adjustments	133	(498)	(2,468)	(1,110)
Net cash provided by (used for) operating activitie	$ (29)	$ -	$ 10,780	$ (3,459)

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
		$ 1,486	$ 34,330	$ 339	$ 387,218
		174			174
$ (1)	$ (119)	(767)	(38,422)	(47)	(381,200)
		(662)			(662)
(616)		(345)	(303)	(7)	(3,198)
(617)	(119)	(114)	(4,395)	285	2,332
6,862					6,927
					2,535
1,619			5,418		13,887
					(25)
					(2,845)
					(684)
					(65)
8,481			5,418		19,730
(7,844)					(8,620)
1,516					6,316
				1,112	1,112
598	58		422	39	2,425
(5,730)	58		422	1,151	1,233
2,134	(61)	(114)	1,445	1,436	23,295
11,124	3,683	419	25,943	225	75,310
$ 13,258	$ 3,622	$ 305	$ 27,388	$ 1,661	$ 98,605
$ (22)	$ (119)	$ (90)	$ (5,051)	$ 286	$ 6,239
					10
					8
(204)					(554)
(391)					(1,085)
					628
					33
		(3)	(236)		(2,297)
		3			(16)
		(15)			(15)
		(9)	666	(1)	(1,245)
					2
			226		624
(595)		(24)	656	(1)	(3,907)
$ (617)	$ (119)	$ (114)	$ (4,395)	$ 285	$ 2,332

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

Office for Information Resources, a division of the Department of Finance and Administration - This division functions as the data and voice service bureau for state government.

Claims Award - This fund was created in 1985 to pay awards for claims made against the state once validity of the claims has been determined by the Tennessee Claims Commission.

Motor Vehicle Management, a division of the Department of General Services - This division is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing, a division of the Department of General Services - This agency operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund - This fund was created in 1989 to provide for the maintenance, repair and total housing needs of state government. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan counties. In fiscal year 91-92, the fund encompassed all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund - Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. Prior to 1978, medical insurance was provided by a private carrier. Group life and accident insurance premiums paid to a private insurance company are also recorded in this fund.

Food Services, a division of the Department of General Services - This division is responsible for the preparation and distribution of certain food to the various state institutions. This consists of food that is cooked and then immediately frozen and is then reheated at the institution.

Postal Services, a division of the Department of General Services - This agency processes and distributes incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Capitol Print Shop, a division of the Office of the Comptroller - This facility is responsible for providing printing, mailing and other office services for the state agencies located in the Capitol.

Purchasing, a division of the Department of General Services - This agency is responsible for the procurement of supplies, equipment and certain specialized services.

Central Stores, a division of the Department of General Services - This agency is responsible for the purchasing and distribution of office supplies to all state government and quasi-governmental entities that opt to use this service.

Records Management, a division of the Department of General Services - This division is responsible for the retention and disposal of official records.

Division of Accounts, a division of the Department of Finance and Administration – This division is responsible for the centralized accounting function for the state.

TRICOR - Tennessee Rehabilitative Initiative in Correction manages correctional industry, agriculture, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not-for profit organizations.

State of Tennessee
Combining Statement of Net Assets
Internal Service Funds
June 30, 2003

(Expressed in Thousands)

	Office for Information Resources	Claims Award	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Assets						
Current assets:						
Cash and cash equivalents	$ 80,354	$ 72,075	$ 7,887	$ 135	$ 34,625	$ 78,283
Accounts receivable	289		585		304	3,061
Due from other funds	266					
Due from component units	601		4			
Inventories, at cost	834		10	81		
Prepaid expenses	75					
Total current assets	82,419	72,075	8,486	216	34,929	81,344
Noncurrent assets:						
Deferred charges					488	
Lease receivable					3,625	
Loans to other funds	4,266					
Capital assets:						
Land, at cost					54,228	
Structures and improvements, at cost					393,902	
Machinery and equipment, at cost	83,992		132,003	1,290	398	
Less-accumulated depreciation	(67,487)		(72,346)	(988)	(153,809)	
Construction in progress					8,470	
Total capital assets, net of accumulated depreciation	16,505		59,657	302	303,189	
Total noncurrent assets	20,771		59,657	302	307,302	
Total assets	103,190	72,075	68,143	518	342,231	81,344
Liabilities						
Current liabilities:						
Accounts payable and accruals:						
Accounts payable	13,639	428	3,919	72	5,877	43,556
Accrued payroll and related deductions	1,697		110	133		
Due to other funds	174		10	13	27	
Lease obligations payable						
Bonds payable- current					12,992	
Deferred revenue	40	5	805	24		28,390
Other		29,596				
Total current liabilities	15,550	30,029	4,844	242	18,896	71,946
Noncurrent liabilities:						
Lease obligations payable						
Commercial paper payable					7,936	
Bonds payable, net					134,205	
Other noncurrent liabilities	1,036	57,741	76	90		
Total noncurrent liabilities	1,036	57,741	76	90	142,141	
Total liabilities	16,586	87,770	4,920	332	161,037	71,946
Net assets						
Invested in capital assets, net of related debt	16,505		59,657	302	148,056	
Unrestricted (deficit)	70,099	(15,695)	3,566	(116)	33,138	9,398
Total net assets	$ 86,604	$ (15,695)	$ 63,223	$ 186	$ 181,194	$ 9,398

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 1,095	$ 144	$ 398	$ 389		$ 170	$ 4,234	$ 10,791	$ 290,580
39			1			1	558	4,838
								266
							23	628
	317	31		$ 770			4,041	6,084
	65	21						161
1,134	526	450	390	770	170	4,235	15,413	302,557
								488
								3,625
								4,266
215								54,443
15,752								409,654
3,685	2,110	728		7	328	46	5,878	230,465
(5,114)	(1,949)	(588)		(7)	(216)	(18)	(3,086)	(305,608)
								8,470
14,538	161	140		-	112	28	2,792	397,424
14,538	161	140			112	28	2,792	405,803
15,672	687	590	390	770	282	4,263	18,205	708,360
499	7	10	11	241	6	107	1,921	70,293
14	142	23	121	48	45	282	480	3,095
1	12		13	191	5	93	46	585
					29			29
								12,992
							7	29,271
								29,596
514	161	33	145	480	85	482	2,454	145,861
					32			32
								7,936
								134,205
10	94	22	69	24	25	160	318	59,665
10	94	22	69	24	57	160	318	201,838
524	255	55	214	504	142	642	2,772	347,699
14,538	161	140			51	28	2,792	242,230
610	271	395	176	266	89	3,593	12,641	118,431
$ 15,148	$ 432	$ 535	$ 176	$ 266	$ 140	$ 3,621	$ 15,433	$ 360,661

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Office for Information Resources	Claims Award	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 151,450	$ 35,369	$ 25,817	$ 3,775	$ 102,459	
Premiums						$ 481,389
Other				3		
Total operating revenues	151,450	35,369	25,817	3,778	102,459	481,389
Operating expenses						
Personal services	21,846		1,417	1,842		
Contractual services	109,570	7,884	1,308	852	48,366	36,590
Materials and supplies	9,340		12,630	918	4,641	
Rentals and insurance	4,428		299	340	21,939	8,475
Depreciation and amortization	6,546		14,996	106	9,608	
Benefits		35,481				405,996
Other	407		23	14	856	2,949
Total operating expenses	152,137	43,365	30,673	4,072	85,410	454,010
Operating income (loss)	(687)	(7,996)	(4,856)	(294)	17,049	27,379
Nonoperating revenues (expenses)						
Taxes		3				
Interest income		1,423			598	746
Interest expense					(8,002)	
Total nonoperating revenues (expenses)		1,426			(7,404)	746
Income (loss) before contributions and transfers	(687)	(6,570)	(4,856)	(294)	9,645	28,125
Capital contributions	13					
Transfers in	5,442		3,043	180	510	431
Change in net assets	4,768	(6,570)	(1,813)	(114)	10,155	28,556
Net assets, July 1	81,836	(9,125)	65,036	300	171,039	(19,158)
Net assets, June 30	$ 86,604	$ (15,695)	$ 63,223	$ 186	$ 181,194	$ 9,398

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 4,044	$ 16,330	$ 884	$ 3,707	$ 7,234	$ 1,249	$ 10,365	$ 21,305	$ 383,988
								481,389
								3
4,044	16,330	884	3,707	7,234	1,249	10,365	21,305	865,380
142	1,945	514	1,919	830	730	4,105	6,399	41,689
3,903	704	307	1,519	903	257	5,849	3,081	221,093
3	12,937	138	24	5,120	11	64	8,353	54,179
6	688	26	237	217	186	313	694	37,848
640	108	80		2	23	9	291	32,409
								441,477
6	31		26	34	6	4	441	4,797
4,700	16,413	1,065	3,725	7,106	1,213	10,344	19,259	833,492
(656)	(83)	(181)	(18)	128	36	21	2,046	31,888
								3
								2,767
					(2)			(8,004)
					(2)			(5,234)
(656)	(83)	(181)	(18)	128	34	21	2,046	26,654
								13
			22					9,628
(656)	(83)	(181)	4	128	34	21	2,046	36,295
15,804	515	716	172	138	106	3,600	13,387	324,366
$ 15,148	$ 432	$ 535	$ 176	$ 266	$ 140	$ 3,621	$ 15,433	$ 360,661

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Office for Information Resources	Claims Award	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Cash flows from operating activities						
Receipts from customers and users	$ 5,211	$ 9,059	$ 478	$ 46	$ 1,385	$ 306,356
Receipts from interfund services provided	147,703	26,311	25,903	3,731	101,074	193,378
Payments to suppliers	(105,924)	(32,138)	(7,309)	(1,506)	(56,762)	(467,242)
Payments to employees	(21,806)		(1,400)	(1,839)		
Payments for interfund services used	(14,745)	(5,305)	(4,949)	(609)	(16,968)	(2,949)
Net cash from (used for) operating activities	10,439	(2,073)	12,723	(177)	28,729	29,543
Cash flows from noncapital financing activities						
Negative cash balance implicitly repaid						
Transfers in	5,442		3,043	180	511	431
Tax revenues received		3				
Net cash from (used for) noncapital financing activities	5,442	3	3,043	180	511	431
Cash flows from capital and related financing activities						
Purchase of capital assets	(7,829)		(16,519)		(9,853)	
Bond and commercial paper proceeds					3,805	
Proceeds from sale of capital assets			1,589		604	
Principal payments					(13,052)	
Interest paid					(8,129)	
Net cash (used for) capital and related financing activities	(7,829)		(14,930)		(26,625)	
Cash flows from investing activities						
Interest received		1,423			598	746
Net cash from (used for) investing activities		1,423			598	746
Net increase (decrease) in cash and cash equivalents	8,052	(647)	836	3	3,213	30,720
Cash and cash equivalents, July 1	72,302	72,722	7,051	132	31,412	47,563
Cash and cash equivalents, June 30	$ 80,354	$ 72,075	$ 7,887	$ 135	$ 34,625	$ 78,283
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating income (loss)	$ (687)	$ (7,996)	$ (4,856)	$ (294)	$ 17,049	$ 27,379
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	6,546		14,996	102	9,608	
Loss on disposal of capital assets	269			3	853	
Gain on disposal of capital assets			(127)			
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	342		(95)	3		(1,035)
(Increase) decrease in due from other funds	1					
(Increase) decrease in due from component units	(459)		(3)			
(Increase) decrease in inventories	85			2		
(Increase) decrease in prepaid expenses	142					
(Increase) decrease in loans to other funds	2,245					
Increase (decrease) in accounts payable	2,596	5,922	2,002	7	1,192	(2,668)
Increase (decrease) in due to other funds	24		1		27	
Increase (decrease) in deferred revenue	(665)	1	805			5,867
Total adjustments	11,126	5,923	17,579	117	11,680	2,164
Net cash provided by (used for) operating activities	$ 10,439	$ (2,073)	$ 12,723	$ (177)	$ 28,729	$ 29,543
Noncash investing, capital and financing activities						
Contributed capital assets	$ 13					
Capital asset disposed of by capital lease					$ (28)	
Total noncash investing, capital and financing activities	$ 13				$ (28)	

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 207	$ 125	$ 6	$ 18	$ 51	$ 24	$ 560	$ 4,319	$ 327,845
3,799	16,205	878	3,688	7,185	1,225	9,805	16,923	557,808
(3,869)	(13,324)	(452)	(322)	(5,496)	(44)	(883)	(11,194)	(706,465)
(143)	(1,933)	(513)	(1,938)	(820)	(737)	(4,068)	(6,518)	(41,715)
(103)	(890)	(30)	(1,474)	(768)	(416)	(5,177)	(1,237)	(55,620)
(109)	183	(111)	(28)	152	52	237	2,293	81,853
	(39)			(138)				(177)
			22					9,629
								3
	(39)		22	(138)				9,455
				(14)			(1,399)	(35,614)
								3,805
								2,193
					(28)			(13,080)
					(2)			(8,131)
				(14)	(30)		(1,399)	(50,827)
								2,767
								2,767
(109)	144	(111)	(6)		22	237	894	43,248
1,204	-	509	395	-	148	3,997	9,897	247,332
$ 1,095	$ 144	$ 398	$ 389	$ -	$ 170	$ 4,234	$ 10,791	$ 290,580
$ (656)	$ (83)	$ (181)	$ (18)	$ 128	$ 36	$ 21	$ 2,046	$ 31,888
640	108	80		2	23	9	291	32,405
				12			1	1,138
								(127)
(38)			(1)			(1)	(40)	(865)
								1
				2			(23)	(483)
	167	6		(66)			(1,117)	(923)
	(18)	3						127
								2,245
(55)	8	(19)	(9)	73	(7)	147	1,129	10,318
	1			1		61	6	121
								6,008
547	266	70	(10)	24	16	216	247	49,965
$ (109)	$ 183	$ (111)	$ (28)	$ 152	$ 52	$ 237	$ 2,293	$ 81,853
								$ 13
								(28)
								$ (15)

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.

Pension and Other Employee Benefit Trust:

Pension Trust Fund - The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2001. As of that date there were 194,725 active members and 77,742 retired members representing a 3.5% and 8.5% increase, respectively, since the previous actuarial valuation in 1999.

Employee Flexible Benefits - Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Private-Purpose Trust Funds:

Baccalaureate Education - This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution.

Children in State Custody – This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring – Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2014 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

Duck River Water Supply – This fund accounts for monies received from the Tennessee Valley Authority to be held for the various Duck River utility districts.

Other – Other trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund - The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund - This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2003

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 1,477,468	$ 240,266	$ 1,717,734	$ 316	$ 1,718,050
Receivables:					
Member contributions	14,863	3,586	18,449		18,449
Employer contributions	10,650	10,208	20,858		20,858
Accrued interest	104,068	16,938	121,006		121,006
Accrued dividends	11,419	1,859	13,278		13,278
Forward contracts	449,823	73,387	523,210		523,210
Investments sold	50,790	8,270	59,060		59,060
Total receivables	641,613	114,248	755,861		755,861
Due from other funds	3,724		3,724	148	3,872
Due from component units	3,820		3,820	2	3,822
Investments, at fair value:					
Short term securities	428,785	69,792	498,577		498,577
Government bonds	8,955,775	1,457,697	10,413,472		10,413,472
Corporate bonds	1,988,160	323,605	2,311,765		2,311,765
Corporate stocks	7,430,045	1,209,359	8,639,404		8,639,404
Real estate	320,191	52,116	372,307		372,307
Total investments	19,122,956	3,112,569	22,235,525		22,235,525
Total assets	21,249,581	3,467,083	24,716,664	466	24,717,130
Liabilities					
Accounts payable and accruals	335,604	55,057	390,661	76	390,737
Forward contracts payable	470,723	76,796	547,519		547,519
Total liabilities	806,327	131,853	938,180	76	938,256
Net assets					
Held in trust for:					
Pension benefits	20,443,254	3,335,230	23,778,484		23,778,484
Employees' flexible benefits				390	390
Total net assets	$ 20,443,254	$ 3,335,230	$ 23,778,484	$ 390	$ 23,778,874

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 148,493	$ 49,218	$ 197,711	$ 4,665	$ 202,376
Employers	264,321		264,321		264,321
Political subdivisions		134,014	134,014		134,014
Total contributions	412,814	183,232	596,046	4,665	600,711
Investment income:					
Net increase in fair value of investments	232,016	36,950	268,966		268,966
Interest	577,854	92,529	670,383		670,383
Dividends	137,166	21,964	159,130		159,130
Real estate income	23,974	3,839	27,813		27,813
Total investment income	971,010	155,282	1,126,292		1,126,292
Less: Investment expenses	11,900	1,913	13,813		13,813
Net investment income	959,110	153,369	1,112,479		1,112,479
Total additions	1,371,924	336,601	1,708,525	4,665	1,713,190
Deductions					
Annuity benefits:					
Retirement benefits	627,329	99,166	726,495		726,495
Cost of living	134,455	16,236	150,691		150,691
Death benefits	3,052	994	4,046		4,046
Other benefits				4,556	4,556
Refunds	14,251	12,381	26,632		26,632
Administrative expenses	2,631	2,425	5,056		5,056
Total deductions	781,718	131,202	912,920	4,556	917,476
Change in net assets held in trust for:					
Pension benefits	590,206	205,399	795,605		795,605
Employees' flexible benefits				109	109
Net assets, July 1	19,853,048	3,129,831	22,982,879	281	22,983,160
Net assets, June 30	$ 20,443,254	$ 3,335,230	$ 23,778,484	$ 390	$ 23,778,874

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2003

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	$ 3,006	$ 16,302	$ 3,131	$ 9,670	$ 1,107	$ 33,216
Receivables:						
Interest and dividends	221					221
Other	2,046				68	2,114
Total receivables	2,267				68	2,335
Due from other funds	9					9
Investments, at fair value:						
Government bonds	29,455					29,455
Mutual funds	10,531					10,531
Total investments	39,986					39,986
Total assets	45,268	16,302	3,131	9,670	1,175	75,546
Liabilities						
Accounts payable and accruals	2,261	86				2,347
Total liabilities	2,261	86				2,347
Net assets						
Held in trust for:						
Individuals, organizations and other governments	$ 43,007	$ 16,216	$ 3,131	$ 9,670	$ 1,175	$ 73,199

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		$ 7,508	$ 1,000			$ 8,508
Private	$ 8,107				$ 607	8,714
Other		4,937			99	5,036
Total contributions	8,107	12,445	1,000		706	22,258
Investment income:						
Net increase in fair value of investments	892					892
Interest	1,075	263	45	$ 153	18	1,554
Total investment income (loss)	1,967	263	45	153	18	2,446
Total additions	10,074	12,708	1,045	153	724	24,704
Deductions						
Payments made under trust agreements	1,257	7,348			809	9,414
Refunds	230	3,114				3,344
Administrative expenses	294					294
Total deductions	1,781	10,462			809	13,052
Change in net assets held in trust for:						
Individuals, organizations and other governments	8,293	2,246	1,045	153	(85)	11,652
Net assets, July 1	34,714	13,970	2,086	9,517	1,260	61,547
Net assets, June 30	$ 43,007	$ 16,216	$ 3,131	$ 9,670	$ 1,175	$ 73,199

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2003

(Expressed in Thousands)

	Local Government	Contingent Revenue	Total Agency Funds
Assets			
Cash and cash equivalents	$ 216,970	$ 72,448	$ 289,418
Receivables:			
Taxes	253,435		253,435
Due from other funds		7,916	7,916
Due from component units		47	47
Total assets	470,405	80,411	550,816
Liabilities			
Accounts payable and accruals	470,405	17,778	488,183
Amounts held in custody for others		62,633	62,633
Total liabilities	$ 470,405	$ 80,411	$ 550,816

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

Local Government Fund	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Assets				
Cash and cash equivalents	$ 215,610	$ 2,730,099	$ 2,728,739	$ 216,970
Accounts receivable	241,849	260,235	248,649	253,435
Total assets	$ 457,459	$ 2,990,334	$ 2,977,388	$ 470,405
Liabilities				
Accounts payable and accruals	$ 457,459	$ 2,486,371	$ 2,473,425	$ 470,405
Total liabilities	$ 457,459	$ 2,486,371	$ 2,473,425	$ 470,405
Contingent Revenue Fund				
Assets				
Cash and cash equivalents	$ 74,425	$ 1,257,604	$ 1,259,581	$ 72,448
Due from other funds	7,500	8,005	7,589	7,916
Due from component units	44	47	44	47
Total assets	$ 81,969	$ 1,265,656	$ 1,267,214	$ 80,411
Liabilities				
Accounts payable and accruals	$ 17,208	$ 310,336	$ 309,766	$ 17,778
Amount held in custody for others	64,761	650,862	652,990	62,633
Total liabilities	$ 81,969	$ 961,198	$ 962,756	$ 80,411
Totals- All Agency Funds				
Assets				
Cash and cash equivalents	$ 290,035	$ 3,987,703	$ 3,988,320	$ 289,418
Accounts receivable	241,849	260,235	248,649	253,435
Due from other funds	7,500	8,005	7,589	7,916
Due from component units	44	47	44	47
Total assets	$ 539,428	$ 4,255,990	$ 4,244,602	$ 550,816
Liabilities				
Accounts payable and accruals	$ 474,667	$ 2,796,707	$ 2,783,191	$ 488,183
Amount held in custody for others	64,761	650,862	652,990	62,633
Total liabilities	$ 539,428	$ 3,447,569	$ 3,436,181	$ 550,816

COMPONENT UNITS

Tennessee Student Assistance Corporation - This fund is used to account for the guaranteed loans program administered by Tennessee Student Assistance Corporation (TSAC).

Community Services Agencies - In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The State has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. The twelve Community Services Agencies are:

Northeast Community Services Agency
East Tennessee Community Services Agency
Upper Cumberland Community Services Agency
Southeast Community Services Agency
Mid-Cumberland Community Services Agency
South Central Community Services Agency
Northwest Community Services Agency
Southwest Community Services Agency
Davidson County Community Services Agency
Knox County Community Services Agency
Shelby County Community Services Agency
Hamilton County Community Services Agency

Housing Development Agency - Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Board of Regents - The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven technology centers) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

UNIVERSITIES

Austin Peay State University	Clarksville
East Tennessee State University	Johnson City
Middle Tennessee State University	Murfreesboro
Tennessee State University	Nashville
Tennessee Technological University	Cookeville
University of Memphis	Memphis

COMMUNITY COLLEGES

Chattanooga State Technical Community College	Chattanooga
Cleveland State Community College	Cleveland
Columbia State Community College	Columbia
Dyersburg State Community College	Dyersburg
Jackson State Community College	Jackson
Motlow State Community College	Tullahoma
Nashville State Technical Community College	Nashville
Northeast State Technical Community College	Blountville
Pellissippi State Technical Community College	Knoxville
Roane State Community College	Harriman
Southwest Tennessee Community College	Memphis
Volunteer State Community College	Gallatin
Walters State Community College	Morristown

TECHNOLOGY CENTERS

Athens	McKenzie
Chattanooga	McMinnville
Covington	Memphis
Crossville	Morristown
Crump	Murfreesboro
Dickson	Nashville
Elizabethton	Newbern
Harriman	Oneida
Hartsville	Paris
Hohenwald	Pulaski
Jacksboro	Ripley
Jackson	Shelbyville
Knoxville	Whiteville
Livingston	

The purpose of the technology centers is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees - The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority - This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board - Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Child Care Facilities - This organization was formed to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The sources of revenues are interest on loans made and grants from the federal government.

Tennessee State School Bond Authority (TSSBA) - Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's universities. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. In addition, the Authority issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state.

Certified Cotton Growers' Organization - This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2003

(Expressed in Thousands)

	Governmental Fund Types					
	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid-Cumberland
Assets						
Cash and cash equivalents	$ 57,315	$ 333	$ 1,371	$ 366	$ 866	$ 70
Cash on deposit with fiscal agent						
Investments						
Investments with fiscal agent						
Receivables, net	17,746	4		4	6	34
Due from primary government		927	705	415	640	604
Inventories, at cost						
Prepayments		1	7	2	1	16
Loans receivable	5,247					
Deferred charges and other						
Restricted assets:						
Cash and cash equivalents						
Investments						
Receivables, net						
Capital assets:						
Land, at cost						
Infrastructure						
Structures and improvements, at cost						
Machinery and equipment, at cost		25	168	60	81	227
Less accumulated depreciation		(23)	(117)	(20)	(63)	(192)
Construction in progress						
Total assets	80,308	1,267	2,134	827	1,531	759
Liabilities						
Accounts payable and accruals	1,424	382	483	308	216	328
Due to primary government	9	193	35	34	384	170
Deferred revenue	98			2		
Advance from federal government	449					
Other						
Noncurrent liabilities:						
Due within one year	41	125	90	44	41	80
Due in more than one year	45	45	37	53	47	68
Total liabilities	2,066	745	645	441	688	646
Net assets						
Invested in capital assets, net of related debt		2	51	28	18	16
Restricted for:						
Debt service						
Capital projects						
Single family bond programs						
Other						
Permanent and endowment:						
Expendable						
Nonexpendable						
Unrestricted	78,242	520	1,438	358	825	97
Total net assets	$ 78,242	$ 522	$ 1,489	$ 386	$ 843	$ 113

Governmental Fund Types						
South Central	Northwest	Southwest	Davidson County	Knox County	Shelby County	Hamilton County
$ 232	$ 573	$ 648	$ 302	$ 137	$ 72	$ 237
	24	2	274		13	47
463	532	744	1,573	433	2,009	337
2	2	6		5		6
21	23	31		55	337	23
(21)	(20)	(28)		(42)	(210)	(20)
697	1,134	1,403	2,149	588	2,221	630
176	249	533	1,876	260	529	205
46	380	311		37	248	35
25	65	92		47	148	24
37	60	84		27	99	30
284	754	1,020	1,876	371	1,024	294
	3	3			43	3
413	377	380	273	217	1,154	333
$ 413	$ 380	$ 383	$ 273	$ 217	$ 1,197	$ 336

(continued on next page)

(continued from previous page)

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2003

(Expressed in Thousands)

	Proprietary Fund Types			
	Housing Development Agency	Board of Regents	University of Tennessee	Local Development Authority
Assets				
Cash and cash equivalents	$ 359,049	$ 196,571	$ 149,507	$ 22,739
Cash on deposit with fiscal agent				
Investments	240,779	118,487	423,966	452
Investments with fiscal agent				
Receivables, net	38,816	118,899	287,625	239
Due from primary government		1,185	5,411	
Inventories, at cost		5,365	8,051	
Prepayments		2,775	3,836	
Loans receivable	1,428,892			84,054
Deferred charges and other	11,107	2,087	2,043	416
Restricted assets:				
Cash and cash equivalents	7,334	178,441	260,412	
Investments	211,800	172		5,917
Receivables, net	2,627			
Capital assets:				
Land, at cost		81,395	48,358	
Infrastructure		141,016	56,379	
Structures and improvements, at cost		1,362,477	1,044,474	
Machinery and equipment, at cost	71	324,926	354,370	
Less accumulated depreciation	(71)	(802,545)	(668,923)	
Construction in progress		114,648	109,219	
Total assets	2,300,404	1,845,899	2,084,728	113,817
Liabilities				
Accounts payable and accruals	53,160	83,084	101,073	1,343
Due to primary government	101	3,606	2,747	
Deferred revenue	1,653	33,183	64,220	
Advance from federal government				
Other	1,353	135,611	15,407	
Noncurrent liabilities:				
Due within one year	251,997	19,600	50,012	52,305
Due in more than one year	1,586,424	282,582	289,882	48,590
Total liabilities	1,894,688	557,666	523,341	102,238
Net assets				
Invested in capital assets, net of related debt		963,161	730,451	
Restricted for:				
Debt service		4,459	389	
Capital projects		18,660	8,843	
Single family bond programs	390,631			
Other	5,572	34,051	196,013	351
Permanent and endowment:				
Expendable		6,311	93,398	
Nonexpendable		9,313	316,192	
Unrestricted	9,513	252,278	216,101	11,228
Total net assets	$ 405,716	$ 1,288,233	$ 1,561,387	$ 11,579

Proprietary Fund Types				
Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Component Units
$ 2,721	$ 253	$ 25,567	$ 4,036	$ 822,965
		2		2
46				783,730
		5		5
614	219	3,910	473	468,949
				15,978
63				13,479
9				6,668
	33	467,729		1,985,955
99		3,809	128	19,689
1,374		3,878		451,439
		12,968		230,857
				2,627
194				129,947
				197,395
11,079				2,418,030
1,912				682,330
(3,857)				(1,476,152)
46				223,913
14,300	505	517,868	4,637	6,977,806
1,015	89	7,898	93	254,724
345	1			8,682
		611		99,767
				449
	19			152,390
295	4	23,572	4,507	403,114
4,453	5	479,617	24,880	2,717,065
6,108	118	511,698	29,480	3,636,191
4,975				1,698,754
1,374				6,222
				27,503
				390,631
				235,987
				99,709
				325,505
1,843	387	6,170	(24,843)	557,304
$ 8,192	$ 387	$ 6,170	$ (24,843)	$ 3,341,615
Reconciliation to Entity-Wide Statement of Net Assets:				
Less: Fiduciary part of Tennessee Student Assistance Corporation				(72,836)
Net Assets reported on Entity-Wide Statement of Net Asse				3,268,779

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2003

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Component units					
Higher education institutions:					
Board of Regents	$ 1,493,978	$ 461,035	$ 339,821	$ 82,187	$ (610,935)
University of Tennessee	1,334,323	386,076	503,929	79,749	(364,569)
Total higher education institutions	2,828,301	847,111	843,750	161,936	(975,504)
Loan programs:					
Tennessee Student Assistance Corporation	64,502	786	17,698		(46,018)
Housing Development Agency	266,713	115,769	186,450		35,506
Local Development Authority	7,780	4,626	857		(2,297)
Child Care Facilities	329	3	229		(97)
State School Bond Authority	27,489	24,927	781		(1,781)
Total loan programs	366,813	146,111	206,015		(14,687)
Other programs:					
Northeast	5,043	371	4,306		(366)
East Tennessee	6,029	660	5,106		(263)
Upper Cumberland	3,700	327	3,020		(353)
Southeast	3,138	418	2,385		(335)
Mid-Cumberland	6,968	412	6,099		(457)
South Central	3,204	272	2,651		(281)
Northwest	3,639	120	3,123		(396)
Southwest	5,901	177	5,236		(488)
Davidson County	5,240		5,026		(214)
Knox County	2,847		2,627		(220)
Shelby County	6,487	572	5,657		(258)
Hamilton County	2,576		2,333		(243)
Veterans' Homes Board	11,877	12,034	63		220
Certified Cotton Growers'	17,773	10,357	5,546		(1,870)
Total other programs	84,422	25,720	53,178		(5,524)
Total	$ 3,279,536	$ 1,018,942	$ 1,102,943	$ 161,936	$ (995,715)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
$ 630,499	$ 19,390	$ 8,171	$ 5,547	$ 165	$ 52,837	$ 1,235,396	$ 1,288,233
423,816	11,816	12,759	(3,746)	14,116	94,192	1,467,195	1,561,387
1,054,315	31,206	20,930	1,801	14,281	147,029	2,702,591	2,849,620
46,610					592	77,650	78,242
		211			35,717	369,999	405,716
25					(2,272)	13,851	11,579
					(97)	484	387
					(1,781)	7,951	6,170
46,635		211			32,159	469,935	502,094
324		5			(37)	559	522
394		23			154	1,335	1,489
309		7			(37)	423	386
305		11			(19)	862	843
423		6			(28)	141	113
295		5			19	394	413
338		8			(50)	430	380
451		7			(30)	413	383
201		3			(10)	283	273
263		2			45	172	217
336		7			85	1,112	1,197
268		5			30	306	336
	28				248	7,944	8,192
4,500		47			2,677	(27,520)	(24,843)
8,407	28	136			3,047	(13,146)	(10,099)
$ 1,109,357	$ 31,234	$ 21,277	$ 1,801	$ 14,281	$ 182,235	$ 3,159,380	$ 3,341,615

Reconciliation to Entity-Wide Statement of Activities:	
Less: Fiduciary part of Tennessee Student Assistance Corporation	(72,836)
Net Assets reported on Entity-Wide Statement of Activities	3,268,779

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid-Cumberland
Revenues						
Interest on investments	$ 1,025	$ 5	$ 23	$ 7	$ 11	$ 6
Federal	16,593		204	718		
Departmental services	47,396	5,001	5,943	2,937	3,101	6,935
Other	80		13	1		
Total revenues	65,094	5,006	6,183	3,663	3,112	6,941
Expenditures						
Education	64,518					
Health and social services		5,059	6,025	3,697	3,117	6,947
Total expenditures	64,518	5,059	6,025	3,697	3,117	6,947
Excess (deficiency) of revenues over (under) expenditures	576	(53)	158	(34)	(5)	(6)
Other financing sources:						
Capitalized lease				13		
Net change in fund balances	576	(53)	158	(21)	(5)	(6)
Fund balances, July 1	77,752	742	1,406	464	918	233
Fund balances, June 30	$ 78,328	$ 689	$ 1,564	$ 443	$ 913	$ 227
Reconciliation to net assets:						
Fund balances per above	$ 78,328	$ 689	$ 1,564	$ 443	$ 913	$ 227
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3	51	40	18	34
Long-term liabilities are not due and payable in the current period and therefore are not reported in in the fund.	(86)	(170)	(126)	(97)	(88)	(148)
Net assets on Statement of Net Assets	$ 78,242	$ 522	$ 1,489	$ 386	$ 843	$ 113

South Central	Northwest	Southwest	Davidson County	Knox County	Shelby County	Hamilton County	Total Governmental Fund Type Component Units
$ 5	$ 9	$ 7	$ 3	$ 2	$ 7	$ 5	$ 1,115
			10				17,525
3,218	3,582	5,864	5,216	2,890	6,566	2,601	101,250
							94
3,223	3,591	5,871	5,229	2,892	6,573	2,606	119,984
							64,518
3,197	3,638	5,901	5,239	2,860	6,448	2,565	54,693
3,197	3,638	5,901	5,239	2,860	6,448	2,565	119,211
26	(47)	(30)	(10)	32	125	41	773
							13
26	(47)	(30)	(10)	32	125	41	786
449	549	587	283	246	1,193	346	85,168
$ 475	$ 502	$ 557	$ 273	$ 278	$ 1,318	$ 387	$ 85,954
$ 475	$ 502	$ 557	$ 273	$ 278	$ 1,318	$ 387	$ 85,954
	3	2		13	127	3	294
(62)	(125)	(176)		(74)	(248)	(54)	(1,454)
$ 413	$ 380	$ 383	$ 273	$ 217	$ 1,197	$ 336	$ 84,794

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Housing Development Agency	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues				
Charges for services	$ 113,583	$ 766,885	$ 740,872	$ 4,626
Investment income	48,538			857
Other	2,186	8,623	13,494	
Total operating revenues	164,307	775,508	754,366	5,483
Operating expenses				
Personal services	8,194	943,981	953,598	
Contractual services	1,415			220
Mortgage service fees	5,447			
Materials and supplies	346	381,594	300,605	
Rentals and insurance	822			
Interest	102,164			3,833
Depreciation and amortization	772	63,665	56,983	28
Nursing home services				
Scholarships and fellowships		91,489	4,651	
Other	2,776			699
Total operating expenses	121,936	1,480,729	1,315,837	4,780
Operating income (loss)	42,371	(705,221)	(561,471)	703
Nonoperating revenues (expenses				
Grant income	138,123	15,972	50,526	
Grant expense	(144,777)			
Interest expense		(12,062)	(11,592)	
Interest income		11,433	42,407	
Payments from primary government		629,975	423,816	25
Grants and contributions				
Gifts		29,591	67,281	
Payments to primary government				(3,000)
Other		1,372	(6,894)	
Total nonoperating revenues (expenses)	(6,654)	676,281	565,544	(2,975)
Income (loss) before capital grants and contributions	35,717	(28,940)	4,073	(2,272)
Capital payments from primary government		48,648	32,584	
Capital grants and gifts		34,064	47,165	
Additions to permanent endowments		165	12,342	
Other		(1,100)	(1,972)	
Change in net assets	35,717	52,837	94,192	(2,272)
Net assets, July 1	369,999	1,235,396	1,467,195	13,851
Net assets, June 30	$ 405,716	$ 1,288,233	$ 1,561,387	$ 11,579

Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Proprietary Fund Type Component Units
$ 12,028	$ 3	$ 24,927	$ 10,357	$ 1,673,281
	4	781		50,180
6				24,309
12,034	7	25,708	10,357	1,747,770
	82			1,905,855
		457	15,724	17,816
				5,447
	1			682,546
	1			823
		24,445		130,442
440		205		122,093
11,068				11,068
				96,140
	18	2,382	31	5,906
11,508	102	27,489	15,755	2,978,136
526	(95)	(1,781)	(5,398)	(1,230,366)
	225			204,846
	(227)			(145,004)
(320)			(2,018)	(25,992)
63			47	53,950
			4,500	1,058,316
			5,546	5,546
28				96,900
				(3,000)
(49)				(5,571)
(278)	(2)		8,075	1,239,991
248	(97)	(1,781)	2,677	9,625
				81,232
				81,229
				12,507
				(3,072)
248	(97)	(1,781)	2,677	181,521
7,944	484	7,951	(27,520)	3,075,300
$ 8,192	$ 387	$ 6,170	$ (24,843)	$ 3,256,821

State of Tennessee
Combining Statement of Cash Flows
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Housing Development Agency	Board of Regents	University of Tennessee	Local Development Authority
Cash flows from operating activities				
Receipts from customers and users	$ 379,794	$ 772,189	$ 746,842	
Other miscellaneous receipts	2,188	15,362	22,632	
Payments to suppliers	(4,883)	(376,017)	(296,806)	$ (220)
Payments to employees	(8,341)	(937,472)	(949,807)	
Payments for acquisition of mortgage loans	(158,910)			
Payments to service mortgages	(5,447)			
Payments for scholarships and fellowships		(89,229)	(4,651)	
Payments to other governments	(1,196)			
Other miscellaneous payments		(4,737)	(5,486)	(162)
Net cash from (used for) operating activities	203,205	(619,904)	(487,276)	(382)
Cash flows from noncapital financing activities				
Operating grants received	138,195			
Operating grants paid	(145,746)			
Negative cash balance implicitly financed			6,057	
Negative cash balance implicitly repaid	(1,711)			
Proceeds from sales of bonds, notes and commercial paper	210,880			57,331
Bond issuance cost	(1,191)			
Advance on bond sale	600			
State appropriations received		633,555	423,522	
Gifts and grants		36,696	94,377	
Payment to primary government	(35,368)			(3,000)
Subsidy to borrowers				(544)
Principal payments	(284,366)			(70,320)
Federal student loan receipts		215,337	130,428	
Federal student loan payments		(213,878)	(130,428)	
Interest paid	(98,050)			(4,354)
Other receipts		3,041	6,155	25
Other payments			(5,682)	
Net cash from (used for) noncapital financing activities	(216,757)	674,751	524,429	(20,862)
Cash flows from capital and related financing activities				
Purchase of capital assets		(128,521)	(155,880)	
Receipts from sale of capital assets			1,131	
Capital debt proceeds		31,689	30,917	
State appropriations received for capital purposes		48,744	39,681	
Bond issuance cost		(86)		
Gifts and grants received		31,560	47,165	
Principal payments		(10,845)	(16,237)	
Interest paid		(12,207)	(11,353)	
Other payments		(1,113)	(974)	
Net cash (used for) capital and related financing activities		(40,779)	(65,550)	
Cash flows from investing activities				
Loans issued				(7,936)
Collection of loan principal				19,130
Purchase of investments	(670,993)	(13,306)	(127,616)	(5,333)
Proceeds from investments	754,576	14,293	153,051	5,725
Interest received	31,471	10,644	43,044	5,304
Other payments		(543)		(390)
Net cash from (used for) investing activities	115,054	11,088	68,479	16,500
Net increase (decrease) in cash and cash equivalents	101,502	25,156	40,082	(4,744)
Cash and cash equivalents, July 1	264,881	349,856	369,837	27,483
Cash and cash equivalents, June 30	$ 366,383	$ 375,012	$ 409,919	$ 22,739

Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Proprietary Fund Type Component Units
$ 12,658	$ 1	$ 349	$ 10,043	$ 1,921,876
38		171		40,391
(4,531)	(17)	(457)	(15,838)	(698,769)
(6,883)	(91)			(1,902,594)
				(158,910)
				(5,447)
				(93,880)
				(1,196)
(38)		(354)		(10,777)
1,244	(107)	(291)	(5,795)	(909,306)
	186		4,962	143,343
	(227)			(145,973)
				6,057
				(1,711)
		42,300		310,511
				(1,191)
				600
			6,750	1,063,827
				131,073
				(38,368)
		(2,472)		(3,016)
		(31,830)	(2,920)	(389,436)
				345,765
				(344,306)
		(23,410)	(2,135)	(127,949)
			585	9,806
				(5,682)
	(41)	(15,412)	7,242	953,350
(261)				(284,662)
				1,131
				62,606
				88,425
				(86)
				78,725
(180)				(27,262)
(319)				(23,879)
(5)				(2,092)
(765)				(107,094)
		(64,061)		(71,997)
	21	27,414		46,565
		(29,597)		(846,845)
		30,553		958,198
57	6	23,831	47	114,404
				(933)
57	27	(11,860)	47	199,392
536	(121)	(27,563)	1,494	136,342
3,559	374	57,010	2,542	1,075,542
$ 4,095	$ 253	$ 29,447	$ 4,036	$ 1,211,884

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State of Tennessee
Combining Statement of Cash Flows
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Housing Development Agency	Board of Regents	University of Tennessee	Local Development Authority
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ 42,371	$ (705,221)	$ (561,471)	$ 703
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	772	63,665	56,983	28
Investment income	(48,538)			(857)
Charges for services				(4,626)
Interest income				
Interest expense	102,164			3,833
Subsidy to borrowers				453
In-kind gifts		5,827		
Miscellaneous		591		84
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	106,899	1,837	(349)	
(Increase) decrease in due from primary government		(66)	6,955	
(Increase) decrease in inventories		1,076	2,066	
(Increase) decrease in prepaid expenses		(337)	(303)	
(Increase) decrease in deferred charges	317			
(Increase) decrease in other assets		434		
Increase (decrease) in accounts payable	(499)	8,897	5,898	
Increase (decrease) in due to primary government	48	1,426	(180)	
Increase (decrease) in deferred revenue	(329)	2,671	1,072	
Increase (decrease) in other		(704)	2,053	
Total adjustments	160,834	85,317	74,195	(1,085)
Net cash provided by (used for) operating activities	$ 203,205	$ (619,904)	$ (487,276)	$ (382)
Noncash investing, capital and financing activities				
In-kind gifts		$ 9,011		
Increase in fair value of investments	$ 18,755	2,423		
Decrease in fair value of investments				$ (196)
Accretion of bonds	4,095			
Total noncash investing, capital and financing activities	$ 22,850	$ 11,434		$ (196)

Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Proprietary Fund Type Component Units
$ 526	$ (95)	$ (1,781)	$ (5,398)	$ (1,230,366)
440		205		122,093
		(237)		(49,632)
	(4)	(24,656)		(29,286)
	(2)	(544)		(546)
		24,445		130,442
		2,382		2,835
				5,827
10			294	979
372			(546)	108,213
				6,889
(13)				3,129
72				(568)
			(98)	219
6				440
(454)	(6)	78	(47)	13,867
285				1,579
		(183)		3,231
				1,349
718	(12)	1,490	(397)	321,060
$ 1,244	$ (107)	$ (291)	$ (5,795)	$ (909,306)
				$ 9,011
		$ 36		21,214
				(196)
		1,129		5,224
		$ 1,165		$ 35,253

SUPPLEMENTARY SCHEDULES

Schedule 1

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2003

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt			State Loan Program Fund Debt (Note 1)			Facilities Revolving Fund Debt (Note 2)		
	Principal	Interest	Total Require-ments	Principal	Interest	Total Require-ments	Principal	Interest	Total Require-ments
2004	$ 74,100	$ 45,663	$ 119,763	$ 3,019	$ 513	$ 3,532	$ 13,155	$ 7,252	$ 20,407
2005	73,918	41,821	115,739	2,859	363	3,222	13,132	6,570	19,702
2006	73,781	37,863	111,644	1,674	222	1,896	13,109	5,878	18,987
2007	65,162	34,058	99,220	864	140	1,004	11,693	5,217	16,910
2008	59,916	30,848	90,764	899	101	1,000	11,258	4,655	15,913
2009	59,486	27,948	87,434	929	60	989	11,218	4,119	15,337
2010	57,906	25,105	83,011	959	27	986	10,149	3,601	13,750
2011	57,715	22,255	79,970				10,115	3,114	13,229
2012	53,958	19,369	73,327				10,077	2,618	12,695
2013	54,178	16,641	70,819				10,047	2,121	12,168
2014	48,258	13,903	62,161				9,786	1,625	11,411
2015	43,732	11,469	55,201				6,198	1,165	7,363
2016	39,556	9,257	48,813				5,196	963	6,159
2017	35,108	7,264	42,372				4,074	703	4,777
2018	27,694	5,483	33,177				3,343	496	3,839
2019	18,955	4,064	23,019				2,862	326	3,188
2020	15,409	3,070	18,479				2,704	183	2,887
2021	9,922	2,253	12,175				815	49	864
2022	9,960	1,836	11,796				802	23	825
2023	2,540	1,454	3,994						
2024	2,705	1,292	3,997						
2025	2,875	1,120	3,995						
2026	3,060	936	3,996						
2027	3,255	740	3,995						
2028	3,465	532	3,997						
2029	3,720	275	3,995						
TOTALS	$ 900,334	$ 366,519	$ 1,266,853	$ 11,203	$ 1,426	$ 12,629	$ 149,733	$ 50,678	$ 200,411

Note 1: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by $133 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by $2.536 million, which is a deduction from bonds payable for the deferred amount on refunding.

Schedule 2

State of Tennessee
Schedule of Outstanding Debt
All Fund Types
For the Last Five Fiscal Years

(Expressed in Thousands)

	June 30				
	1999	2000	2001	2002	2003
Enterprise Funds:					
State Loan Program General Obligation Bonds	$ 23,551	$ 20,347	$ 17,213	$ 13,924	$ 11,070
Internal Service Funds:					
General Obligation Bond Anticipation Notes	31,772				
General Obligation Commercial Paper		38,754	9,485	4,131	7,936
Facilities Revolving Fund General Obligation Bonds	135,281	125,448	150,747	160,181	147,197
	167,053	164,202	160,232	164,312	155,133
General Long-Term Debt:					
General Obligation Bonds	927,569	858,273	898,709	974,700	900,334
General Obligation Bond Anticipation Notes	145,528				
General Obligation Commercial Paper		209,746	240,515	106,569	193,864
	1,073,097	1,068,019	1,139,224	1,081,269	1,094,198
Totals for Primary Governmen	$ 1,263,701	$ 1,252,568	$ 1,316,669	$ 1,259,505	$ 1,260,401

Schedule 3

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2003

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	$ 184,500
Purpose: To finance the construction, improvements, repairs, and replacements buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable	
Purpose: To finance improvements to various State Parks and to finance Mental Health and Mental Retardation Facilities	17,300
Total Outstanding	$ 201,800

State of Tennessee
Schedule of Outstanding Debt
Component Units
For the Last Five Fiscal Years

Schedule 4

(Expressed in Thousands)

	June 30				
	1999	2000	2001	2002	2003
Component units:					
Certified Cotton Growers' notes		$ 7,530	$ 23,704	$ 32,306	$ 29,386
Local Development Authority notes	$ 33,100	37,631	45,025	51,513	48,950
Local Development Authority bonds	62,813	58,263	54,559	50,664	43,644
Tennessee Housing Development Agency bonds	1,634,858	1,872,661	1,850,495	1,820,394	1,769,506
Tennessee Housing Development Agency notes	65,235	31,180	84,865	67,909	51,070
Veterans' Homes Board bonds	5,040	4,887	4,730	4,567	4,400
Tennessee State School Bond Authority bonds	329,562	271,814	359,225	471,136	449,809
Tennessee State School Bond Authority notes					
Tennessee State School Bond Authority commercial paper	162,050	102,700	60,277	13,757	46,747
University of Tennessee notes	70	51	31	10	
Board of Regents notes	5,551	1,778	798	1,284	688
Board of Regents bonds	1,467	1,175	872	551	236
	$ 2,299,746	$ 2,389,670	$ 2,484,581	$ 2,514,091	$ 2,444,436

STATISTICAL AND ECONOMIC DATA

The Statistical Data are presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic Data are presented to allow a broader understanding of the economic and social environment in which State government operates.

Table I

State of Tennessee
Revenues by Source and Transfers In
All Governmental Fund Types
For the Last Ten Years

(Expressed in Thousands)

Sources	For the Year Ended June 30									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Taxes	$ 5,624,158	$ 5,970,140	$ 6,237,102	$ 6,604,037	$ 6,967,790	$ 7,212,642	$ 7,778,475	$ 7,900,810	$ 7,718,442	$ 8,695,598
Licenses, fines, fees and permits	308,797	333,097	345,148	353,516	370,419	392,261	423,614	435,886	460,920	480,629
Interest on investments	43,829	36,580	24,183	19,296	35,977	47,683	53,819	92,127	36,618	28,429
Federal	3,976,016	4,209,340	4,335,071	4,636,905	4,831,199	5,124,273	5,537,353	6,184,126	6,694,648	7,646,384
Departmental services	921,221	1,198,117	1,258,672	1,034,678	1,129,859	1,282,634	1,512,483	1,748,165	1,607,251	1,716,159
Other	27,794	37,725	21,113	22,624	47,537	40,155	352,183	356,029	444,450	384,536
Transfers in	510,289	495,467	485,767	580,618	545,432	565,885	472,275	567,901	766,097	679,743
Total revenues and transfers in- all governmental fund types	$ 11,412,104	$ 12,280,466	$ 12,707,056	$ 13,251,674	$ 13,928,213	$ 14,665,533	$ 16,130,202	$ 17,285,044	$ 17,728,426	$ 19,631,478

Table II

State of Tennessee
Expenditures by Function and Transfers Out
All Governmental Fund Types
For the Last Ten Years

(Expressed in Thousands)

Function	For the Year Ended June 30									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
General government	$ 267,918	$ 290,305	$ 282,149	$ 287,635	$ 289,194	$ 345,746	$ 330,255	$ 349,278	$ 358,523	$ 392,747
Education	2,087,013	2,283,546	2,368,196	2,535,513	2,731,599	2,859,303	2,947,577	3,059,538	4,218,637	4,432,071
Health and social services	5,090,588	5,615,339	5,790,343	5,829,651	6,094,595	6,596,034	7,446,923	8,641,777	9,250,026	10,342,682
Law, justice and public safety	670,738	717,364	729,663	694,610	742,714	825,010	872,353	897,805	914,307	970,042
Recreation and resources development	335,484	355,166	365,586	385,673	372,119	382,614	429,389	419,423	446,137	442,915
Regulation of business and professions	31,149	34,922	36,919	41,598	41,402	46,346	49,325	57,988	65,040	71,109
Transportation	878,547	1,003,796	1,023,381	1,079,683	1,145,536	1,164,776	1,271,170	1,269,773	1,311,654	1,357,941
State shared taxes paid to local governments	504,547	534,641	550,633	572,821	607,070	629,904	653,989	681,151	686,515	641,271
Debt service	89,174	93,400	94,575	92,286	100,556	111,530	123,783	122,221	123,707	126,722
Capital outlay	124,978	164,059	98,335	79,769	121,651	105,889	70,866	55,679	145,590	132,949
Transfers out	1,367,157	1,471,327	1,518,869	1,651,160	1,563,095	1,693,625	1,619,425	1,748,989	787,813	708,252
Total expenditures and transfers out - all governmental fund types	$ 11,447,293	$ 12,563,865	$ 12,858,649	$ 13,250,399	$ 13,809,531	$ 14,760,777	$ 15,815,055	$ 17,303,622	$ 18,307,949	$ 19,618,701

Note: The Governmental Fund Types include General, Education, Highway, Special Revenue, Debt Service, Capital Projects and Permanent Funds.

Table III

State of Tennessee
Tax Revenues by Source
All Governmental Fund Types
For the Last Ten Years

(Expressed in Thousands)

Tax Revenue	For the Year Ended June 30 1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales and use	$ 3,070,109	$ 3,475,229	$ 3,681,461	$ 3,904,964	$ 4,099,928	$ 4,346,209	$ 4,600,658	$ 4,643,337	$ 4,647,768	$ 5,459,444
Services	299,232	513	424							
Gasoline	537,419	543,170	551,347	558,629	579,162	584,249	576,640	569,422	575,349	600,138
Motor fuel	109,003	120,876	125,177	125,397	131,632	140,887	152,771	173,418	151,034	155,403
Petroleum products	37,586	39,384	39,209	39,132	40,289	41,614	60,432	61,487	61,624	60,858
Income	100,513	101,285	114,750	128,273	161,304	160,352	179,904	199,397	171,073	102,939
Privilege	117,083	115,122	130,135	139,019	150,564	166,074	177,244	181,175	205,029	239,066
Gross receipts	165,600	180,012	175,878	188,202	188,808	197,542	213,147	229,210	230,582	216,536
Alcoholic beverage	65,470	66,201	67,595	69,869	71,522	74,736	77,221	79,854	81,616	90,237
Franchise	249,974	273,519	280,056	399,482	313,342	318,666	519,879	467,900	428,590	475,985
Excise	418,809	516,052	537,597	493,785	592,848	572,567	563,163	634,902	537,711	595,715
Inheritance and estate	44,476	55,665	60,356	58,970	121,847	83,198	94,704	89,676	104,481	83,148
Tobacco	79,992	85,160	85,371	85,449	86,093	84,492	82,540	82,814	85,596	114,717
Insurance companies premiums	159,855	211,302	204,557	224,099	243,355	242,849	271,194	280,561	265,473	302,388
Medicaid provider	105,833	115,263	110,853	115,755	118,885	117,366	116,190	115,909	100,976	101,700
Other	63,204	71,387	72,336	73,012	68,211	81,841	92,788	91,748	71,540	97,324
Total tax revenues-all governmental fund types	$ 5,624,158	$ 5,970,140	$ 6,237,102	$ 6,604,037	$ 6,967,790	$ 7,212,642	$ 7,778,475	$ 7,900,810	$ 7,718,442	$ 8,695,598

STATE OF TENNESSEE
DESCRIPTION OF TAX SOURCES
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2003

Presented below is a brief description of the state's principal tax sources as shown in the preceding table.

SALES AND USE TAX – The retail sales and use tax, imposed in 1947, is the state's leading source of revenue. The current rate of 7.0% on most non-food items was made effective July 15, 2002. The rate on food remains at 6%. There is an additional tax of 2.75% on the sale or use of any single article on the amount in excess of $1,600 up to $3,200. The tax is applied to the sale, use, consumption, distribution, lease or rental of tangible personal property and certain services and, effective June 1, 1985, was extended to include most admission and amusement charges. Political subdivisions, governmental agencies, charitable and religious groups, non-profit organizations and certain items of tangible personal property, including prescription drugs, are exempt.

SERVICES TAX – The services tax was enacted as of July 1, 1992. Vendors are taxed at a rate of 6.75% for services provided such as repairs to equipment, installation of equipment and certain other specific services. This act repeals the state and local use tax on services and amusements as well as exempting certain services from the tax altogether. The services tax expired December 31, 1993.

GASOLINE TAX – The gasoline tax was first enacted in 1923. The tax was increased to 20 cents per gallon on July 1, 1989, and is charged on each gallon of gasoline or distillate refined, manufactured, sold, stored or distributed in Tennessee, as well as gasoline or distillate imported into the state. Refunds are granted on gasoline used for agricultural purposes, while political subdivisions and governmental agencies are exempt.

MOTOR FUEL TAX – The motor fuel tax was enacted in 1941. The tax was imposed on the sale of diesel fuel and as of April 1, 1990 the current rate is 17 cents per gallon. Effective July 1, 1984, a tax was levied on motor vehicles powered by liquified gas at rates ranging from $70 for passenger cars to $114 for the largest trucks. Owners of commercial vehicles may be charged additional tax based on number of miles driven in Tennessee. Effective April 1, 1989, out of state residents are taxed at a rate of 14 cents per gallon of liquified gas.

SPECIAL PETROLEUM PRODUCTS TAX – The special Petroleum Products Tax (formerly Gasoline Inspection Fee) was first enacted in 1899 for the purpose of assuring that gasoline and oil sold in the state met certain minimum standards. The rate was 1 cent per gallon in 1989 and went to 1.4 cents per gallon on May 1, 1990 on volatile substances having certain gravity levels which are produced from petroleum, natural gas, oil shales, or coal.

INCOME TAX – Although Tennessee does not levy a general personal income tax, income derived from dividends and interest on stocks and bonds has been subject to tax since 1929. The tax rate is 6% on dividends from stocks, and interest on bonds, subject to an exemption of $1,250 for individuals and $2,500 for joint tax returns. Blind persons, pension trusts, profit-sharing trusts and qualifying low income persons 65 years of age or older are exempt from the tax.

PRIVILEGE TAX – The first state privilege tax in Tennessee was levied in 1799. During the ensuing 150 years, 132 business activities were made subject to the tax. Virtually all of these business-related privilege taxes were abolished in 1971 and re-enacted as part of other taxes. Currently, the privilege tax base is provided from litigation taxes, realty transfer, mortgage taxes, marriage license fees, professional taxes, tire taxes, auto rental taxes, bail bond fees, and auto oil tax.

GROSS RECEIPTS TAXES – There have been numerous additions, deletions and alterations in the group of taxable privileges comprising the gross receipts tax since it was first imposed in 1937. Currently, the tax covers bottlers, mixing bars, utilities, and firearms. TVA payments "in lieu of taxes" based on power sales in Tennessee make up over 85% of collections.

ALCOHOLIC BEVERAGE TAX – The alcoholic beverage tax was enacted in 1939, authorizing the sale of alcoholic beverages in counties and municipalities in Tennessee if approved by local referendum. It provided for a system of state licensing fees and established a gallonage tax on wines and liquors sold in the state. Currently, the tax is levied at the rate of $4.40 per gallon on distilled spirits and $1.21 per gallon on wines, with additional fees for regulatory purposes and for the issuance of licenses and permits.

FRANCHISE TAX – The franchise tax, first collected in 1937, imposes an annual tax for the privilege of engaging in business in the form of a corporation, Limited Liability Corporation and Limited Liability Partnership in the state. The tax is levied at the rate of 25% of the greater of net worth or real and tangible property on domestic and foreign corporations operating in Tennessee.

EXCISE TAX – The excise tax originated in 1923 and has always been a major revenue source. The tax is presently applied at the rate of 6.5% on annual net earnings from business corporations, co-operatives conducted for profit, joint stock associations, business trusts, state banks, national banks and savings and loan associations.

INHERITANCE, ESTATE AND GIFT TAXES – The inheritance tax was first enacted in 1891. Originally, the tax was applicable only to property going to collateral heirs, but was extended to direct heirs in 1909. The tax applies to all property, real and personal, with certain exemptions.

TOBACCO TAXES – Tobacco taxes were first levied in 1925. The present tax equates to 20 cents per pack of 20 cigarettes and 6.6% of the wholesale cost for all other tobacco products.

INSURANCE COMPANY PREMIUM TAX – This tax, first enacted in 1945, is applied to gross premiums paid by or for policyholders residing in this state or on property located in the state. The rate is 1.75% for domestic life insurance companies, 2% for foreign life insurance companies, 2.5% for property and casualty insurance companies and 4% for workers compensation premiums.

MEDICAID PROVIDER TAX – The Hospital Medicaid Provider Tax has been in effect since July 1, 1989. The tax is directly proportional to the hospital's Medicaid utilization rate, low income utilization rate, or large volume of Medicaid days per year. The Nursing Home Medicaid Provider Tax, which has been in effect since July 1, 1990, is based on the number of licensed beds physically located in the state.

Table IV

State of Tennessee
Ratio of Net General Long-Term Debt to
Assessed Value and Net Debt Per Capita
For the Last Ten Years

(Expressed in Thousands except Ratio and Per Capita Data)

For the Year Ended June 30	Population	Assessed Value	Total (Note)	General Long-Term Debt Less Debt Service Fund	Net	Net General Long-Term Debt Ratio to Assessed Value	Per Capita
1994	5,176	$ 51,686,000	$ 632,506	$ 4,336	$ 628,170	1.22%	$ 121.36
1995	5,256	53,915,000	669,061	5,217	663,844	1.23%	126.30
1996	5,327	56,072,000	712,020	961	711,059	1.27%	133.48
1997	5,398	61,648,000	881,983	4,531	877,452	1.42%	162.55
1998	5,470	71,292,000	919,670	4,356	915,314	1.28%	167.33
1999	5,524	75,561,000	1,073,097	1,335	1,071,762	1.42%	194.02
2000	5,750	78,568,000	1,068,019	2,750	1,065,269	1.36%	185.26
2001	5,776	89,194,000	1,139,224	3,407	1,135,817	1.27%	196.64
2002	5,833	92,726,000 (Est)	1,081,269	4,527	1,076,742	1.16%	184.59
2003	5,890 (Est)	94,530,000 (Est)	1,094,198	33,733	1,060,465	1.12%	180.04

Note: Total General Long-term debt does not include State Loan Program and Facilities Revolving Fund General Obligation Bonds, Notes and Commercial Paper as follows:

Year	Bonds, Notes and Commercial Paper
1994	$ 209,422
1995	232,276
1996	210,684
1997	208,006
1998	212,239
1999	190,604
2000	184,549
2001	177,445
2002	178,236
2003	166,203

These obligations are reported as debt of those enterprises in the accompanying financial statements.

Table V

State of Tennessee
Computation of Legal Debt Margin
June 30, 2003

(Expressed in Thousands)

Legal debt service limit (2003 pledged revenues of $825,316/150%)	$ 550,211
Less - 2003 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligation bonds	148,079
Legal debt service margin	$ 402,132

	Collections for Fiscal Year 2003 Portion Pledged	All Governmental Fund Types	Pledged Amount
Calculation of 2003 pledged revenues as above:			
Gasoline tax	29.3 %	$ 600,138	$ 175,840
Petroleum products fee	All	60,858	60,858
Motor vehicle registration fee	One-half	225,267	112,633
Franchise tax	All	475,985	475,985
Totals		$ 1,362,248	$ 825,316

Note: Pledged revenues for the last five years are shown below:

Fiscal Year	Pledged Revenues	Percent Increase (Decrease)
1999	$ 632,040	1.8
2000	870,302	37.7
2001	802,023	(7.8)
2002	768,696	(4.2)
2003	825,316	7.4

Table VI

State of Tennessee
Ratio of Annual Debt Service for General
Long-Term Debt to Total Expenditures
All Governmental Fund Types
For the Last Ten Fiscal Years

(Expressed in Thousands except for Ratio Data)

For the Year Ended June 30	Debt Service	Total Expenditures	Ratio
1994	$ 89,174	$ 9,575,589	0.93
1995	93,400	10,557,897	0.88
1996	94,575	10,789,147	0.88
1997	92,286	11,026,418	0.84
1998	100,556	11,639,366	0.86
1999	111,530	12,437,248	0.90
2000	123,783	13,541,641	0.91
2001	122,221	15,554,633	0.79
2002	123,707	17,520,136	0.71
2003	126,722	18,910,449	0.67

Table VII

State of Tennessee
Schedule of Revenue Bond Coverage
Component Units
Tennessee Housing Development Agency Fund
For the Last Ten Fiscal Years

(Expressed in Thousands except for Coverage)

For the Year Ended June 30	Dedicated Revenues	Related Expenses	Net Available For Debt Service	Debt Service Requirements	Coverage
1994	$ 137,447	$ 4,567	$ 132,880	$ 115,380	1.15
1995	133,765	4,518	129,247	106,750	1.21
1996	141,056	4,779	136,277	113,969	1.20
1997	197,309	5,041	192,268	162,327	1.18
1998	332,821	4,784	328,037	294,861	1.11
1999	308,454	4,843	303,611	271,574	1.12
2000	248,647	5,836	242,811	208,377	1.17
2001	257,258	6,070	251,188	218,726	1.15
2002	180,894	7,360	173,534	138,870	1.25
2003	222,312	7,737	214,575	181,901	1.18

State of Tennessee
Schedule of Revenue Bond Coverage
Component Units
College and University Funds
For the Last Ten Fiscal Years

(Expressed in Thousands except for Coverage)

For the Year Ended June 30	Fees and Charges	Tennessee State School Bond Authority	Other Than Authority	Total	Coverage
1994	$ 737,294	$ 29,365	$ 345	$ 29,710	24.8
1995	836,722	29,664	346	30,010	27.9
1996	865,204	29,810	352	30,162	28.7
1997	908,072	35,993	275	36,268	25.0
1998	908,650	38,182	272	38,454	23.6
1999	1,016,422	35,837	204	36,041	28.2
2000	835,841	29,760	784	30,544	27.4
2001	859,417	33,454	498	33,952	25.3
2002	936,385	45,616	488	46,104	20.3
2003	973,897	45,616	661	46,277	21.0

Table VIII

State of Tennessee
Schedule of Fees/Charges, Legislative Appropriations and Debt Service
Component Units
College and University Funds
For the Last Ten Years

(Expressed in Thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 497,370	$ 322,443	$ 21	$ 21,245
1995	555,363	359,941	21	21,692
1996	563,302	369,853	21	21,749
1997	587,138	374,249	21	26,891
1998	592,661	367,938	21	28,657
1999	622,109	373,207	21	24,431
2000	410,086	375,872	21	16,872
2001	401,918	408,671	21	18,628
2002	438,956	406,146	21	24,804
2003	413,632	409,612		24,804

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 17,785	$ 22,064	$ 41	$ 540
1995	17,722	24,610	48	535
1996	18,235	25,209	48	535
1997	19,178	25,733	48	641
1998	20,420	25,559	48	672
1999	23,188	27,444	48	651
2000	24,288	28,001	48	649
2001	26,555	28,051	48	649
2002	33,157	30,484	48	1,516
2003	36,201	31,100	212	1,516

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 30,825	$ 59,911		$ 1,661
1995	46,563	65,530		1,636
1996	49,502	67,549		1,636
1997	53,232	68,469		1,597
1998	57,826	67,202		1,588
1999	64,652	70,814		1,743
2000	64,386	72,837	$ 258	1,954
2001	59,516	75,937	261	1,916
2002	65,342	77,965	261	2,608
2003	68,805	79,735	319	2,608

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 60,537	$ 82,765		$ 2,450
1995	67,576	88,120		2,444
1996	72,587	90,400		2,451
1997	75,167	91,212		2,889
1998	80,625	89,924		2,991
1999	93,593	93,576		3,054
2000	102,186	94,289		2,353
2001	114,031	97,499		3,777
2002	120,196	99,786		6,334
2003	127,638	102,139		6,334

Middle Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 41,194	$ 54,830		$ 1,177
1995	49,083	60,371		1,164
1996	54,128	61,920		1,166
1997	57,341	63,529		1,668
1998	62,814	64,469		1,872
1999	70,530	70,576		3,357
2000	78,317	73,273		4,886
2001	86,328	76,159		5,472
2002	98,031	77,990		6,537
2003	93,953	83,208		6,537

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 21,084	$ 28,067	$ 135	$ 1,111
1995	26,481	30,567	135	1,015
1996	31,231	31,477	135	1,100
1997	34,352	32,227	135	1,157
1998	39,141	32,052	135	1,257
1999	46,423	35,597	66	1,470
2000	52,156	36,337	66	2,056
2001	54,979	34,843	66	2,193
2002	45,119	35,067		3,137
2003	57,939	39,040		3,137

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 24,288	$ 35,358		$ 1,181
1995	26,204	37,473		1,178
1996	26,110	38,452		1,173
1997	27,208	38,164		1,150
1998	28,831	37,699		1,145
1999	31,616	39,259		1,075
2000	33,791	38,938		844
2001	37,065	43,568		639
2002	41,311	40,392		415
2003	53,518	45,813		415

Chattanooga State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 7,222	$ 16,435	$ 74	
1995	7,961	17,822	71	
1996	8,701	18,284	74	
1997	9,032	18,514	71	
1998	9,818	18,589	68	
1999	10,453	19,602	69	
2000	11,074	20,234	72	
2001	11,650	20,684	69	$ 34
2002	12,380	21,233	70	73
2003	13,428	21,108	60	73

(continued on next page)

State of Tennessee
Schedule of Fees/Charges, Legislative Appropriations and Debt Service (continued)
Component Units
College and University Funds
For the Last Ten Years

(Expressed in Thousands)

Columbia State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 3,897	$ 7,599		
1995	4,150	8,150		
1996	4,605	8,361		
1997	4,966	8,670		
1998	5,753	9,069		
1999	6,615	10,143		
2000	6,836	10,675		
2001	7,294	11,016		
2002	13,136	11,437		
2003	14,921	11,540		

Nashville State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 3,456	$ 9,010		
1995	4,019	9,585		
1996	4,300	9,716		
1997	4,777	9,677		
1998	6,260	9,864		
1999	6,816	11,092		
2000	7,474	11,655		
2001	8,322	12,168		
2002	8,254	12,525		$ 13
2003	13,519	13,099		13

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 4,744	$ 12,076		
1995	5,418	13,177		
1996	5,349	13,509		
1997	5,878	13,649		
1998	6,268	13,441		
1999	6,940	14,254		
2000	7,565	14,879	$ 33	
2001	7,697	15,524	33	
2002	8,589	15,771		
2003	9,532	15,779		

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 7,222	$ 16,435		
1995	8,853	17,549		
1996	9,250	17,988		
1997	9,712	18,174		
1998	9,837	17,898		
1999	9,991	18,527		$ 56
2000	10,838	18,464		146
2001	18,325	34,451		146
2002	19,022	35,175		179
2003	37,839	35,195		179

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 13,579	$ 9,818		
1995	10,909	11,226		
1996	11,309	11,504		
1997	12,855	12,029		
1998	13,046	13,232		
1999	15,088	14,323		
2000	17,843	14,947		
2001	15,567	15,394		
2002	15,060	15,862		
2003	12,941	15,813		

Walters State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1994	$ 4,091	$ 10,921		
1995	6,420	12,018		
1996	6,595	12,308		
1997	7,236	12,658		
1998	8,350	13,132		
1999	8,408	14,265		
2000	9,001	14,767	$ 286	
2001	10,170	15,173		
2002	17,832	15,595	88	
2003	20,031	16,045	70	

State of Tennessee
Student Fees and Charges
For Institutions with Tennessee State School Bond Authority Debt
Component Units
College and University Funds
For the Fiscal Year Ended June 30, 2003

Table IX

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 148	$ 4,450	$ 13,532	$ 2,220	$ 2,600
University of Tennessee- Chattanooga	220	3,852	11,504		2,650
University of Tennessee- Martin	174	3,846	11,496	1,890	1,910
University of Tennessee- Memphis	54	5,544	16,152		6,525
Austin Peay State University	218	2,748	9,706	1,450	2,280
East Tennessee State University	160	2,748	9,706	2,162	1,900
University of Memphis	120	3,072	9,706	1,990	2,700
Middle Tennessee State University	166	2,748	9,706	1,260	2,250
Tennessee State University	130	2,748	9,706	1,775	1,610
Tennessee Technological University	68	2,748	9,706	2,000	2,138
Chattanooga State Technical Community College		1,600	4,792		
Columbia State Community College		1,600	4,792		
Nashville State Technical Community College		1,600	4,792		
Roane State Community College		1,600	4,792		
Southwest Tennessee Community College		1,600	4,792		
Volunteer State Community College		1,600	4,792		
Walters State Community College		1,600	4,792		

State of Tennessee
Principal Amount of Debt Outstanding by Institution
Component Units
College and University Funds
June 30, 2003

Table X

Institution	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	$ 72,475	$ 125,099	$ 21,819		$ 219,393
Austin Peay State University	2,308	14,775	11,801	$ 212	29,096
East Tennessee State University	232	24,863		2,035	27,130
University of Memphis	1,597	52,849	1,363		55,809
Middle Tennessee State University	10,470	65,020	5,903		81,393
Tennessee State University	5,742	24,148			29,890
Tennessee Technological University	78	7,625	2,495		10,198
Chattanooga State Technical Community College		647		60	707
Columbia State Community College			150		150
Nashville State Technical Community College		90			90
Roane State Community College			125		125
Southwest Tennessee Community College		1,788			1,788
Volunteer State Community College			145		145
Walters State Community College			616		616
	$ 92,902	$ 316,904	$ 44,417	$ 2,307	$ 456,530

State of Tennessee
Economic Characteristics*

Tennessee's Economic Growth

The economic future for Tennessee remains bright. Characteristics of the state which have been identified as important reasons why firms have chosen Tennessee sites include work-force related factors such as worker productivity, right-to-work laws and low unionization, as well as access to markets and pro-business attitude of the state. Other factors include relatively inexpensive energy, plentiful natural resources and sun-belt location. Tennessee's gross state product as a percentage of gross domestic product was unchanged from 1.80% in 1993 and 1.80% in 2002, and personal income was 1.79% in 1993 and 1.79% in 2002.

(Expressed in Millions)

Year	Gross State Product	Personal Income	Disposable Personal Income
1993	$119,758	$100,401	$90,814
1994	129,671	106,855	96,329
1995	136,821	114,260	102,796
1996	142,050	119,287	106,568
1997	151,738	125,456	111,632
1998	162,228	134,242	119,346
1999	170,402	141,118	125,546
2000	178,362	150,344	133,732
2001	182,746	154,910	137,460
2002	188,353 (Est)	160,554 (Est)	144,299 (Est)

Tennessee Gross State Product by Sector

(Expressed in Millions)

	1992	1997	2002 (Est)	Sector as Percentage of 2002 Total
Manufacturing	$27,432	$32,690	$34,382	18.3%
Construction	3,875	6,390	8,599	4.6%
Mining	387	477	586	0.3%
Trade	19,813	28,412	35,309	18.7%
Services	21,130	31,131	41,542	22.1%
Finance, insurance and real estate	14,109	21,258	28,651	15.2%
Transportation, communication and public utilities	9,085	12,103	15,786	8.4%
Federal government	5,349	5,436	6,760	3.6%
State & local government	9,068	12,182	15,140	8.0%
Agriculture	1,595	1,658	1,598	0.8%
Total gross state product	$111,843	$151,737	$188,353	100.0%

* Except as otherwise noted, the source for all economic information presented is An Economic Report to the Governor of the State of Tennessee on the State's Economic Outlook (February 2003) developed by the Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville. The source for disposable personal income is the U.S. Department of Commerce, Bureau of Economic Analysis.

Tennessee Average Annual Wage by Sector

	1992	1997	2002 (Est)	Percentage Change (From 1992 to 2002)
Manufacturing	$27,182	$32,295	$37,949	39.6%
Construction	25,189	30,720	35,066	39.2%
Mining	30,202	43,736	47,742	58.1%
Trade	17,856	20,997	24,622	37.9%
Services	22,540	26,391	31,680	40.6%
Finance, insurance and real estate	28,963	37,075	47,544	64.2%
Transportation, communication and public utilities	31,059	35,628	41,022	32.1%
Federal government	35,590	41,974	50,774	42.7%
State & local government	20,237	24,558	28,935	43.0%
Agriculture	7,428	9,131	13,500	81.7%
Average all sectors	$24,625	$30,251	$35,883	45.7%

Tennessee Employment by Sector

(Expressed in Thousands)

	1992	1997	2002 (Est)	Percentage Change (From 1992 to 2002)
Manufacturing	514.5	517.6	464.7	-9.7%
Construction	88.3	118.1	119.0	34.8%
Mining	5.0	4.6	3.7	-26.0%
Trade	517.7	610.2	635.3	22.7%
Services	541.1	682.4	771.9	42.7%
Finance, insurance and real estate	101.0	120.1	132.3	31.0%
Transportation, communication and public utilities	120.6	150.8	173.8	44.1%
Federal government	58.4	51.8	50.1	-14.2%
State & local government	298.5	328.8	354.6	18.8%
Agriculture	14.6	14.1	11.8	-19.2%
Total all sectors	2,259.7	2,598.5	2,717.2	20.2%

Manufacturing

Manufacturing investment in Tennessee totaled $3.7 billion in 2002, marking the twentieth consecutive billion dollar year for the state. The combined new plant and expansion projects announced are expected to create 15,443 new job opportunities. The tables which follow indicate the state's manufacturing gross product, employment and industrial expansion.

Tennessee Manufacturing Gross Product

(Expressed in Millions)

	1992	1997	2002 (Est)	Percentage Change (From 1992 to 2002)
Durables:				
Furniture & fixtures	$ 867	$ 963	$ 898	3.6%
Fabricated metals	2,347	2,992	2,974	26.7%
Nonelectrical machinery	2,440	2,513	3,258	33.5%
Electrical machinery	1,840	2,301	1,637	-11.0%
Transportation equipment	2,881	5,097	5,202	80.6%
Other	3,577	4,632	5,113	42.9%
Total durables	13,952	18,498	19,082	36.8%
Nondurables:				
Food	2,938	2,959	3,611	22.9%
Textiles	719	747	626	-12.9%
Apparel	1,484	1,101	446	-69.9%
Paper	1,397	1,355	1,818	30.1%
Printing & publishing	1,491	1,619	1,802	20.9%
Chemicals	3,488	4,120	4,279	22.7%
Rubber & plastics	1,436	1,856	2,150	49.7%
Other	525	435	568	8.2%
Total nondurables	13,478	14,192	15,300	13.5%
Totals	$ 27,430	$ 32,690	$ 34,382	25.3%

Tennessee Manufacturing Employment

(Expressed in Thousands)

	1992	1997	2002 (Est)	Percentage Change (From 1992 to 2002)
Durables:				
Furniture & fixtures	27.4	27.4	22.8	-16.8%
Fabricated metals	42.0	43.8	43.7	4.0%
Nonelectrical machinery	37.3	45.4	47.5	27.3%
Electrical machinery	35.8	40.2	34.8	-2.8%
Transportation equipment	45.3	53.4	49.5	9.3%
Other	69.6	78.3	74.0	6.3%
Total durables	257.4	288.5	272.3	5.8%
Nondurables:				
Food	36.5	35.9	40.8	11.8%
Textiles	20.7	18.6	12.6	-39.1%
Apparel	60.9	38.2	16.9	-72.2%
Paper	22.2	22.0	22.5	1.4%
Printing & publishing	36.5	38.7	34.8	-4.7%
Chemicals	39.6	35.7	27.3	-31.1%
Rubber & plastics	30.2	34.3	33.3	10.3%
Other	10.5	5.9	4.1	-61.0%
Total nondurables	257.1	229.3	192.3	-25.2%
Totals	514.5	517.8	464.6	-9.7%

Industrial Growth in Tennessee

New Plants and Expansions

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number:										
New	60	81	80	105	80	63	80	66	56	57
Expansions	1,013	886	864	703	961	1,290	1,041	1,065	825	613
	1,073	967	944	808	1,041	1,353	1,121	1,131	881	670
Investment (In thousands):										
New	$178,234	$694,517	$1,005,577	$571,098	$463,844	$270,164	$754,807	$539,320	$527,879	$1,446,033
Expansion	1,875,672	1,787,295	2,254,233	3,232,541	2,400,932	3,035,618	2,960,216	4,413,085	3,508,749	2,272,410
	$2,053,906	$2,481,812	$3,259,810	$3,803,639	$2,864,776	$3,305,782	$3,715,023	$4,952,405	$4,036,628	$3,718,443
Job opportunities:										
New	5,515	9,538	4,862	8,588	4,904	3,310	6,410	5,636	3,964	3,915
Expansions	18,306	16,779	12,485	14,321	14,639	19,793	20,256	21,377	11,840	11,528
	23,821	26,317	17,347	22,909	19,543	23,103	26,666	27,013	15,804	15,443

Top Fifty Tennessee Companies

(Ranked by Number of Employees in Tennessee)

	Company	Number of Employees		Company	Number of Employees
1.	Wal-Mart Associates, Inc.	32,000	26.	Blue Cross Blue Shield of TN	4,300
2.	Federal Express, Inc.	30,000	27.	UT-Battelle (Research)	4,200
3.	Kroger Limited Partnership, Inc.	15,500	28.	National Health Corp.	4,100
4.	Vanderbilt University/Hospital	13,700	29.	Goodyear Tire & Rubber Company	4,100
5.	Eastman Chemical Company	11,100	30.	Centennial Medical Center (HCA)	4,032
6.	United Parcel Service	8,600	31.	The Gap, Inc.	4,000
7.	Saturn Corporation	8,400	32.	Food Lion, Inc	3,900
8.	Methodist Health Care Memphis	7,900	33.	Bi-Lo LP	3,700
9.	U. S. Xpress, Inc.	7,300	34.	Bridgestone/Firestone Corporation	3,700
10.	Nissan Motor Mfg. Corp. USA	6,300	35.	Union Planters Bank National Assoc.	3,700
11.	Sears Roebuck and Company	6,200	36.	M S Carriers Inc.	3,600
12.	Gaylord Entertainment Co.	6,100	37.	Wellmont Health System	3,600
13.	K-Mart Corporation	5,900	38.	Walgreen Co.	3,600
14.	Randstad Staffing Svcs, USA, Inc.	5,900	39.	Connecticut General Life Insurance	3,600
15.	Bellsouth Telecommunications, Inc.	5,800	40.	Lowe's Home Centers, Inc.	3,600
16.	First Tennessee Bank	5,700	41.	TN Limited Partners	3,400
17.	UT-Battelle (Facilities Support Services)	5,500	42.	International Paper Co.	3,400
18.	HCA - The Healthcare Co	4,998	43.	Home Depot Co.	3,400
19.	J. C. Penney Co. Inc.	4,900	44.	St. Thomas Hospital	3,300
20.	Baptist Memorial Hospital	4,900	45.	McKee Foods Corp.	3,300
21.	Carson Pirie Holdings (Saks)	4,900	46.	Staffmark Inc. - Nashville	3,300
22.	Cracker Barrel Old Country Stores	4,700	47.	Maytag Corporation	3,300
23.	AmSouth Bancorp	4,600	48.	E. I. DuPont De Nemours & Co.	3,300
24.	Covenant Transport Inc.	4,400	49.	Carrier Corp. (Collierville)	3,200
25.	K-VA-T Food Stores Inc.	4,400	50.	Hardee's Food Systems, Inc.	3,200

Source: Tennessee Department of Economic and Community Development.

Agriculture

Important export commodities such as soybeans, tobacco, feed grains, cotton, and greenhouse and nursery products are among the top income earners for Tennessee farmers.

Cash Receipts

(Expressed in Millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 (Est)
Crops	$1,063.9	$1,199.9	$1,227.8	$1,374.1	$1,245.2	$1,166.1	$956.5	$1,006.9	$988.4	$1,086.8
Meat animals	482.3	498.4	420.2	463.0	485.4	435.7	423.1	477.4	455.5	376.1
Dairy products	250.2	247.4	239.4	253.6	225.6	236.9	222.8	193.2	215.5	172.9
Poultry and eggs	199.8	197.0	203.4	251.7	256.8	306.1	294.5	258.4	395.3	299.4
	$1,996.2	$2,142.7	$2,090.8	$2,342.4	$2,213.0	$2,144.8	$1,896.9	$1,935.9	$2,054.7	$1,935.2

Population and Employment Trend

The state's population has grown steadily in recent history by over one-half of 1% per year.

(Expressed in Thousands except Unemployment Rates)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 (Est)
Population	5,094	5,176	5,256	5,327	5,398	5,470	5,524	5,750	5,776	5,833
Average labor force	2,500	2,663	2,712	2,759	2,708	2,760	2,819	2,798	2,818	2,926
Average total employment	2,357	2,536	2,571	2,623	2,562	2,644	2,705	2,688	2,692	2,776
Average unemployment	144	127	141	136	146	116	114	110	126	150
TN Unemployment rate	5.7%	4.8%	5.2%	4.9%	5.4%	4.2%	4.0%	3.9%	4.5%	5.1%
U.S. Unemployment rate	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%

Bank Deposits, Sales and Effective Buying Income

	(Expressed in Millions)		(Expressed in Thousands)
Year	Bank Deposits	Sales	Effective Buying Income Median Household
1993	$46,596	$49,112	$30.1
1994	48,531	53,778	31.8
1995	52,321	57,943	29.1
1996	57,219	60,689	39.4
1997	54,302	66,079	31.5
1998	76,542	66,389	32.0
1999	64,966	72,341	33.6
2000	62,113	74,595	34.6
2001	73,051	74,473	34.0
2002	79,206	74,788	34.6

New Privately Owned Housing Units Authorized in Permit-Issuing Places
Valuation of Building Permits Issued

(Expressed in Thousands)

Year	Valuation	Year	Valuation
1993	$2,171,097	1998	$3,613,835
1994	2,538,773	1999	3,835,303
1995	2,838,290	2000	3,377,629
1996	3,334,419	2001	3,540,178
1997	3,103,939	2002	3,961,209

Source: The Tennessee Econometric Model, Tennessee Department of Labor and Workforce Development Labor Summary, Sales and Marketing Management, Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Tennessee Agricultural Statistics Service Cash Receipts Estimates and Tennessee Department of Financial Institutions Annual Report.

Population, Tax Base and Personal Income

(Expressed in Thousands)

Year	Population	Assessed Value	Appraised/ Estimated Current Value	Personal Income	Per Capita Income
1993	5,094	$49,593,000	$170,264,000	$100,401,000	$19.7
1994	5,176	51,686,000	176,895,000	106,855,000	20.6
1995	5,256	53,915,000	191,993,000	114,260,000	21.7
1996	5,327	56,072,000	207,352,000	119,287,000	22.4
1997	5,398	61,648,000	228,083,000	125,456,000	23.2
1998	5,470	71,292,000	249,897,000	134,282,000	24.5
1999	5,524	75,561,000	270,007,000	141,118,000	25.5
2000	5,750	78,568,000	290,633,000	150,344,000	26.1
2001	5,776	89,194,000	313,276,000	154,910,000	26.8
2002	5,833	92,726,000 (Est)	323,092,000 (Est)	160,554,000 (Est)	27.5

Public School Enrollment Grades K-12

Academic Year	Grades K-3	Grades 4-6	Grades 7-9	Grades 10-12	Total K-12
1993-94	294,876	212,082	219,896	177,743	904,597
1994-95	300,440	213,703	222,982	179,552	916,677
1995-96	308,006	215,579	225,154	180,969	929,708
1996-97	316,094	217,823	226,287	183,852	944,056
1997-98	320,784	221,651	227,097	187,172	956,704
1998-99	314,781	221,913	226,859	187,313	950,866
1999-2000	317,830	232,230	232,616	191,050	973,726
2000-2001	311,184	234,407	230,094	190,849	966,534
2001-2002	297,072	228,790	225,930	187,110	938,902
2002-2003	296,940	227,897	232,813	190,363	948,013

Higher Education Enrollment

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Universities:										
Austin Peay State	5,992	5,740	5,763	6,072	5,968	5,816	5,721	5,671	5,769	6,079
East Tennessee State	9,321	9,312	9,355	9,450	9,549	9,792	9,638	9,364	9,507	9,664
Middle Tennessee State	14,629	14,226	14,504	14,916	15,455	15,655	16,173	16,339	17,125	18,151
Tennessee State	6,110	6,438	6,787	7,007	7,168	7,383	7,629	7,431	7,425	7,703
Tennessee Technological	7,472	7,353	7,303	7,230	7,287	7,112	7,227	7,212	7,327	7,554
University of Memphis*	15,317	15,177	15,495	15,001	15,452	15,771	15,909	15,613	15,890	15,696
University of Tennessee:										
Chattanooga	6,515	6,438	6,540	6,608	6,816	7,040	7,019	6,832	6,955	7,050
Knoxville	21,696	21,575	21,454	21,528	21,819	22,476	23,277	22,960	23,183	23,221
Martin	5,313	5,308	5,497	5,376	5,607	5,480	5,278	5,324	5,379	5,311
Total universities	92,365	91,567	92,698	93,188	95,121	96,525	97,871	96,746	98,560	100,429
Community colleges:										
Chattanooga State Tech	5,214	5,144	4,982	5,427	5,227	5,140	5,038	4,832	5,269	5,264
Cleveland State	2,151	1,929	2,204	2,111	2,376	2,176	2,158	2,083	2,318	2,200
Columbia State	2,255	2,331	2,501	2,639	2,820	2,947	2,906	2,788	2,984	3,108
Dyersburg State	1,357	1,380	1,373	1,531	1,533	1,522	1,435	1,563	1,577	1,657
Jackson State	2,143	2,088	2,155	2,223	2,328	2,416	2,548	2,514	2,658	2,713
Motlow State	2,117	2,133	2,077	2,116	2,287	2,273	2,221	2,199	2,441	2,556
Nashville State Tech	2,602	2,749	2,778	3,112	3,357	3,492	3,527	3,548	3,631	3,757
Northeast State Tech	2,288	2,372	2,314	2,459	2,422	2,513	2,601	2,607	2,879	2,968
Pellissippi State Tech	4,941	4,866	4,768	5,003	5,217	5,258	5,080	5,079	5,151	5,208
Roane State	3,713	3,614	3,591	3,688	3,720	3,675	3,797	3,474	3,647	3,767
Southwest Tennessee**	9,945	9,416	9,019	8,640	7,852	7,359	7,338	7,059	7,743	7,141
Volunteer State	3,611	3,783	3,904	4,129	4,236	4,198	4,107	4,138	4,295	4,525
Walters State	3,520	3,602	3,507	3,731	3,807	3,666	3,594	3,665	3,909	3,867
Total community colleges	45,857	45,407	45,173	46,809	47,182	46,635	46,350	45,549	48,502	48,731
Total all institutions	138,222	136,974	137,871	139,997	142,303	143,160	144,221	142,295	147,062	149,160

* Effective July 1, 1994 Memphis State University became University of Memphis.

** Effective July 1, 2000 State Technical Institute at Memphis (STIM) and Shelby State Community College (SSCC) were consolidated to form Southwest Tennessee Community College (STCC).

Sources: The Tennessee Econometric Model, State Board of Equalization, Tennessee Department of Education and the Higher Education Commission.

INDEX TO SECURITIES AND EXCHANGE COMMISSION (SEC) DISCLOSURES

General Obligation Debt:	Page #
Collections of Special Taxes	120
Total Sales and Use Tax Collections	168
Allocation of Sales and Use Tax to Debt Service	89
General Obligation Bonds Outstanding, and Authorized and Unissued	58-60, 164
General Obligation Commercial Paper Outstanding	59, 164
General Obligation Bonds Outstanding by Fiscal Year of Maturity	163
Outstanding Indebtedness of State Agencies and Authorities	58-59, 64-68 163-165
Revenues by Source - All Governmental Fund Types	167
Expenditures by Function - All Governmental Fund Types	167
Tax Revenues by Source - All Governmental Fund Types	168
Ratio of Net General Long-Term Debt to Assessed Value and Net Debt Per Capita	170
Computation of Legal Debt Service Margin	170
Ratio of Annual Debt Service for General Long-Term Debt to Total Expenditures - All Governmental Fund Types	171
Schedule of Revenue Bond Coverage - Tennessee Housing Development Agency Fund	171
Schedule of Revenue Bond Coverage - College and University Funds	171

Tennessee State School Bond Authority:	Page #
Outstanding Bonds	67-68, 165
Student Fees and Charges by Institution	176
Schedules of Outstanding Debt by Institution	176
Total Equated Full-Time Student Enrollment by Institution	182
Schedule of Fees/Charges, Legislative Appropriations and Debt Service by Institution	172-175